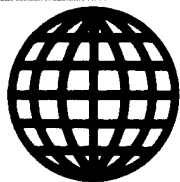


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GENERAL

Analysis of Superpower Detente, PRC Foreign Policy Options

40050129 Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 20, 16 Oct 88 pp 6-7

[Article by Li Yihu 2621 0308 5706, Beijing University, Department of International Politics: "A Recasting of the International System"; first paragraph is source-supplied abstract]

[Text] *The current detente developed after fundamental changes occurred in the conceptual framework and ideology employed by the United States, the Soviet Union, and indeed the entire world, and thus is more comprehensive and real and will be more lasting than the previous two detentes. Moreover, the current peace will involve more wide-ranging and varied competition.*

I was greatly intrigued by the discussion of detente carried in SHIJIE ZHISHI, which discussion may be considered to be a continuation of the symposium papers published in issue No 1000 of the journal.

Of the more recent discussion, I particularly approve of the thesis presented in He Fang's [0149 2455] paper, "International Relations Stand at an Important Turning Point." This is an important new interpretation that I believe is the product of wide-ranging, systematic reflection on the changes that have transpired during the post-war period and on the current international situation, not the fortuitous fruit of fragmentary, haphazard thought. His achievement required not only theoretical boldness but the strategic perspective, which we so frequently stress. It must be recognized that a new era in international relations definitely is almost upon us, approaching with ever greater speed and momentum. We must not underestimate the importance of the impending change, for even slight hesitation may cause us to miss important opportunity. I believe that it is precisely sudden, cataclysmic change that makes it so difficult to render a clear, forward-looking strategic evaluation of the situation. And this makes our discussion all the more important.

In addition to the issues already discussed, I believe there are a number of other matters that merit attention and on which we must come to some agreement.

We must dispense with "cold war mentality" and not approach detente from such a perspective. Undeniably, "detente" has not been a very popular word in our country. Nevertheless, though we do not all "sing its praises," we all do identify with and welcome it. If I may be permitted to draw a common, amusing analogy, I think that the changes that have occurred in the way detente is perceived strongly resemble the improvement in Mickey Mouse's image. As is commonly known, Mickey "evolved," imperceptibly, under the brush of the famous American cartoonist Walt Disney. Initially

pointy-nosed, hollow-cheeked, small-eyed and long-legged in appearance, Mickey eventually became a tiger-headed, stocky, sincere and good-natured mouse. And from a mischievous rascal, he transformed into a charming, gentle character. For detente, too, change in the concept and in people's perception of the idea actually improved its outward image. That is precisely how its good name was restored.

Of course, it was, after all, only with great difficulty that the world community managed to wriggle out of the shackles of the "cold war," and it is perhaps unavoidable that people, encumbered by conceptual inertia, will continue to interpret reality through the logic with which they have become habituated. As is often pointed out, there is still a market for "cold war mentality" even though the "cold war era" is over. What must be emphasized is that current U.S.-Soviet detente differs from the previous two detentes and that fundamental change has occurred in the conceptual framework and ideology of "bipolar" detente. The United States and the Soviet Union are reassessing the issues of war and peace and now place greater stress on global interdependence and emphasize comprehensive national competition rooted principally in economics and technological advancement, transcending ideology and pursuing demilitarization, peaceful competition, and the race to coexist. This consciousness of a "global system" was totally absent in the first two detentes. In other words, we might say that the current detente has advanced beyond the previous two, which one-sidedly stressed military aspects, to a three-dimensional effort embracing political and economic as well as security goals. Moreover, the world situation has greatly changed since the previous detentes. The old system of international relations, which was dominated by "two poles," has broken down before the emergence of "multiple poles," and the Yalta arrangement, though not completely disintegrated, stands on the brink of final collapse. It is important to recognize this point.

Richard Nixon long ago complained that the main reason some people oppose detente is that they do not understand what it is and what it is not. From the perspective of the future, abandoning "cold war mentality" means that detente must involve the creation of a new international order. This will force the "two poles," the United States and the Soviet Union, to develop new norms of behavior for themselves and will also promote the development of "multiple poles." The latter process, in particular, will enhance global interdependence and be a fundamental contributor to the molding of a new international system.

This detente is "comprehensive," not "one-sided." Precisely for the aforementioned reasons, I believe that this, the third, detente is "comprehensive," not one-way and unilateral. When U.S.-Soviet detente was at its peak during the 1970s, Henry Kissinger put forth his "theory of detente," which included political, military, and economic elements and the "linkages" between them. He

believed that these elements are prone to falling out of balance, which can lead to "unilateral detente." Thus even Mr Nixon, the statesmen who made contributions to the second detente, clearly understood the first two efforts: "Detente is not an enjoyment of love; containment is still essential to detente." Though the first two detentes brought a considerable relaxation to U.S.-Soviet relations, they enabled the Soviets to go on the offensive and put the United States on the defensive. Against this backdrop, we have said that detente is a smoke screen and a sham and may even be compared to the Adolf Hitler's championing of peace prior to World War II. The current detente, on the other hand, is comprehensive and real and includes efforts to strengthen political and economic interdependence and to achieve nuclear disarmament. The three things Kissinger once said are difficult to synchronize and are now coming into balance. The many facts that testify to this are plain for everyone to see.

There is yet another issue. To achieve complete detente, especially military detente, the Soviet Union has proposed that the United States join with her in a dialog on security theory, to which the Americans have agreed. Thus the possibility exists that the two sides may find common ground on strategic concepts and security issues. In addition, Mikhail Gorbachev's thesis that "there are already sufficient armaments" (balance of power at a minimum level) has weakened the concept of "deterrence," which has dominated strategy for more than 30 years. This suggests that security theory on both sides, which serves as the backdrop to detente, is changing, which fact cannot but affect the overall relations between the United States and the Soviet Union.

Big nations have established a new conceptual framework and decided policy with an eye toward the 21st century. In reality, it was China that set the example here. In 1980, Deng Xiaoping advanced the theses that "war is avoidable" and "the forces of peace are growing," thus correcting the traditional views that "war is inevitable" and "the threat of war is growing." Subsequently, he even more insightfully characterized the times and the main themes of current international affairs as "peace and development." These statements represent a new approach and indicate that China has undertaken a major reappraisal of the issues of war and peace. Facts today prove that Deng Xiaoping's theses were correct and prescient. Guided by this ideology, China's domestic and foreign policies are better focused and are oriented toward the 21st century. Arnold Toynbee, the famous English historian and international affairs expert, and others believe that Chinese civilization will play a guiding role should the world ever get itself into a quandary. For the views and ideas of the Chinese people have a unique value for the global community, and the Chinese ideal of "harmony" is especially important for a nuclear world that cannot seem to find a way out of its dilemmas.

After Chinese leaders advanced these new ideas, the Soviet leader, Mr Gorbachev, made clear his new approach. Reading through "Perestroyka: New Thinking

for Our Country and the World," which caused a sensation throughout the world, one cannot help being swayed by the distinctive persuasiveness of Mr Gorbachev's political argument and can discern the important ideological elements and policy implications of the book. Mr Gorbachev's new thinking is an indication of the across-the-board changes that have occurred in Soviet policy, from strategy to tactics, and, in particular, the change in the theoretical framework of the Soviet Union's foreign policy. That country now emphasizes achieving victory through long-term, peaceful competition with the United States, beginning from now and continuing into the 21st century. On this point, we must not be constrained by conservatism and get mired in a dispute over whether it is strategy or tactics that are involved here. Think about Mr Gorbachev's ideas a moment. Do they not give one a feeling that a new age is at hand?

The United States also has some new thinking. Secretary of State George Shultz once issued a special paper in which he used the eye-catching phrase "new ideas on foreign policy." The Reagan administration's new thinking has been displayed primarily in the area of detente, especially military detente. Of course, everyone is familiar with this fact. Then there is the issue of SDI. The theoretical premise of the SDI plan is to clamber out of the "deterrence" predicament and to break the nuclear stalemate. The Reagan administration believes that "mutually assured destruction" is an illusory and flimsy safeguard against nuclear war and that the "deterrence" predicament can be escaped only by using SDI to change the nuclear "strategic arrangement" (namely, to "mutually assured existence"). Actually, this is an anomalous policy, for it makes real war a real possibility. This is why we oppose SDI. Instead, we believe that achieving thorough and complete nuclear disarmament and seeking a balance of power at a minimum level are the correct choices and the only way to extricate ourselves from the predicament of "deterrence."

In studying international issues, we must maintain a strategic perspective, not the view of a functionary, and be attentive to the study of theoretical laws. Changes occur in great profusion as time slowly passes. The strategic perspective quickly identifies long-range trends of development from events that have already occurred. We must assume the high ground of international relations theory and not be satisfied with the mere study of international affairs (current events). For example, in his paper He Fang argued that the parity in big nation power that was brought about by the "law of disequilibrium" has been a major contributor to detente. This is a very important point and an important theoretical concept. In a famous report contained in Vol 9 of his *Works*, Stalin correctly interpreted Lenin's "law of disequilibrium," noting that the process of balancing (equilibrium toward new equilibrium) is the basis and condition for the intensification of the operation of disequilibrium. From this perspective, we should recognize that the "law of disequilibrium," which many people frequently mention, does not operate in isolation and in a material

vacuum but rather works through the process of movement from equilibrium to new equilibrium, which process engenders general disequilibrium. Historically, whenever the operation of the "law of disequilibrium" is intensified and a new equilibrium appears, major changes invariably occur in international relations, leading from military conflict eventually to world war. But in the balancing that is now occurring ("multipolarization"), the United States and the Soviet Union are seeking "comprehensive detente," and the global community demands comprehensive and real detente. Why are these things happening? What is the connection between the process of balancing and the famous strategic concept of "balance of power?" Where do these concepts coincide theoretically? We must study these questions carefully so as to provide a theoretical basis for the formulation of China's national strategy.

China's diplomacy must hoist the banner of peace. International relations have entered a new era in which comprehensive, complete and lasting peace are sought. U.S.-Soviet detente, of course, is the outstanding symbol of the new era, but positive changes in Sino-American and Sino-Soviet relations and the cooling of regional hot spots are also important components of the emerging global detente. Confronted with a new international arena, what kind of choices should we make in China's foreign affairs strategy?

On the issues of war and peace, everyone now evaluates things differently. Toynbee once said, "War has been one of mankind's principal habits for 5,000 years." But now peace is beginning to become a goal transcending all else.

Peace does not mean living together without conflict or passive coexistence. It involves wide-ranging competition and evidences the diversification and broadening of competition. In this situation, diplomacy will replace war as the primary vehicle of international behavior. Thus when we talk of detente or peace we are by no means motivated by a commitment to absolute pacifism and in fact recognize, as Lenin did, that peace is conditional and by no means abstract. Everyone emphasizes that the current situation presents us with both an opportunity and a challenge. Well then, how shall we seize the opportunity and meet the challenge?

An important element of Leninism is that it stresses the significance of the stable periods that occur whenever international forces are balanced. I believe that the significant thing here is to seize opportunities to build up national might and that implementing successful diplomacy is certainly an important means by which to achieve this aim. As we stress the view that "weak nations have no diplomacy," which we so often do, we must also be attentive to the fact that "one can never become a first-rate power if one does not carry out successful diplomacy." During this age of "globalism" and China's complete opening to the outside world, it is even more imperative that we take advantage of successful diplomacy and enhance China's ability to participate in international activities. Confronted with the trend of global society toward comprehensive, complete and lasting peace, China must get in step with the times and hoist the banner of peace. Only then can we carry out forceful and successful diplomacy and make big strides toward becoming a world power.

**Brief Description of New State Council
Commission, Ministries**
40050120a Beijing ZHONGGUO XINGZHENG
GUANLI [CHINA ADMINISTRATION] in Chinese
No 9, 16 Sep 88 p 2

[Article entitled: "A Brief Introduction of the Newly Established State Council Ministries and Commission, Part I"—the first three parts were contributed by Jia Lingyun 6328 0407 0061 and the last part by Shi Heping 0671 0735 1627]

[Text]

The State Planning Commission

Formerly the State Planning Commission and the State Economic Commission, the new State Planning Commission is the state Council's largest comprehensive department which oversees the national economic and social developments. It is a high-level macroeconomic administrative organ. The newly organized State Planning Commission differs from previous organizations not because it is created by scaling-down and merging two former commissions, but primarily because of its new duty to meet the needs of the development of a planned commodity economy. The basic and inherent change lies in the shift of the emphasis of the state's administration of enterprises from direct management to indirect management. It regulates and controls, balances, coordinates, and serves the economy at the macroeconomic level. Its functions include: study and propose economic, scientific and technological social development strategies and major economic-technological policies, ensure planned overall balance and macroeconomic regulation and control by adjusting the total capacity and structure, and provide assistance and cooperation in economic decision-making and economic activities.

In accordance with its new functions and the principle of simplicity, unity, and efficiency, the State Planning Commission has restructured its internal organization and personnel. Today, the 66 department- and bureau-level organs in the original two commissions have been trimmed to 26, a 60 percent reduction, and the number of government functionaries have been cut by more than 40 percent.

Ministry of Energy

The Ministry of Energy is in charge of the nation's energy industry. It was inaugurated on 26 June 1988. Characteristically, the new ministry will follow the direction of reform to separate government and enterprises and take up new functions, and organically put all the energy development departments under centralized administration, enhance macroeconomic management and overall planning, promote internal unification, give play to all the superior factors, develop the primary and secondary energy resources simultaneously, put them to proper use, and coordinate their development so as to better meet the

needs of the nation's economic and social developments. In the future, the basic task of the Ministry of Energy will be to formulate reform and policies to promote the fairly rapid development of the various energy industries and constantly increase the productivity and improve the economic performance of the energy enterprises.

The main duties of the Ministry of Energy are: 1. speed up the construction of power plants to ease the tight supply situation; 2. adopt necessary measures to guarantee continuous and steady increase in coal production; 3. increase input in different areas to boost petroleum production; 4. guarantee funds and expedite plans for the construction of nuclear power plants; 5. implement a supportive policy to speed up the construction of hydroelectric power stations; 6. promulgate a proper energy policy compatible with conditions in this country and improve the composition of energy resources. There are 20 functional organs under the Ministry of Energy.

Ministry of Constructions

The Ministry of Constructions is a comprehensive department in charge of the nation's constructions. It oversees four different areas: it manages and supervises comprehensively the standard and quota, inspection, design, and the actual construction of all the construction projects of the departments and regions in the country; it is responsible for planning and guiding the nation's urban constructions as well as village and township constructions; it puts the nation's constructions industry and real estate development and businesses under proper managing departments; it organizes efforts to open up constructions markets abroad, puts the nation's foreign construction contracts and related labor and service joint ventures under proper administration, and promotes the export of construction materials and machinery and equipments.

From now on, the central task of the Ministry of Constructions is to mobilize all elements through reform and gradually develop the constructions industry into one of the mainstays of the national economy and into a major industry which accumulates funds and withdraws currencies from circulation. By reinforcing the comprehensive functional departments and curtailing the specialized management departments, the new Ministry of Constructions has reduced the department- and bureau-level units by 25 percent, and personnel by 20 percent.

Ministry of Materials

The State Ministry of Materials is in charge of the overall planning and management of the circulation of the nation's capital goods. Its main duties include the following:

It will work out, in cooperation with the State Planning Commission, a mandatory plan to balance the supply and demand of the nation's capital goods; it will formulate a mandatory plan for the allocation of capital goods

to different regions and departments; it will be responsible for the examination and approval of import-export quotas of important commodities; it will draw up plans for the network of the nation's commodities markets, and also guide, coordinate, and supervise the nation's various commodities markets in the different economic districts, urban centers, and production and marketing bases.

Statistics show that there are 18 specialized departments and bureaus under the newly established Ministry of Materials. In addition, it also heads 10 commodities marketing companies, 15 commodities supply companies, and 8 other companies.

Focus of Socialist Concepts Discussed at Theory, Reform Seminar

40050127 Beijing GUANGMING RIBAO in Chinese
21 Nov 88 p 3

[Article in "Academic Trends" column by Zhou Haidong 0719 3189 2639, et al.: "What is the Core of the New Socialist Concepts—Contemporary World Socialist Theory and Reform Seminar Advances New Concepts"]

[Text] The "Contemporary World Socialist Theory and Reform Seminar," sponsored by the Society for Study of Foreign Socialism of the Chinese Society of Scientific Socialism, the Jiangxi Provincial College of Science Sciences, and the Jiangxi Steel plant, was held on 15-20 October in Lushan. Delegates at the seminar have brought up the issue of the need to develop new socialist concepts.

Some participants feel that there are discrepancies between traditional socialist concepts and contemporary concepts and there is a need for the people to rethink carefully the theories behind some of the traditional concepts and develop new concepts.

Many scholars think that the productive force is the core of the new socialist concepts. Only if the socialist countries can develop their productive force so that the people are happy, society is stable, the country is rich, and the citizens are strong can socialism become more attractive.

Some comrades have pointed out that the core of socialism ought to be democratic humanitarianism. On the whole, socialism, humanitarianism, and democracy are similar concepts; the three are inseparable. The comprehensive development of mankind is the ultimate goal of socialism. But to realize this goal, an important premise is that we must have democracy in every domain—economic, social, spiritual, and ideological—of human activities, because democracy is the foundation of normal social and human relationships. At the same time, democracy is one of the intrinsic properties and characteristics of socialism. Without democracy, there is no socialism.

Some scholars directly maintain that the core of socialism is humanitarianism. Mankind is the measurement of all things, the center of historic development, and the most precious being. All creatures and all human value belong to mankind. We are the determining factor of all changes. The freedom of one individual is the precondition for the freedom of all individuals. Everything is for the sake of mankind and for the benefit of mankind—this is the nature of socialism.

Some comrades have also pointed out that in order to develop new socialist concepts, the theory behind the traditional ownership system must be abolished. Public-ownership is not the same as socialism. Public-ownership is not the only or the best form of socialist ownership system. We need to generate the right conditions to allow other ownership systems to compete fairly, and take from one system's strong points and offset weaknesses in other systems. We cannot deliberately eliminate other forms of ownership system. Any ownership systems which facilitates the development of the productive force is a reasonable one.

Issues To Be Addressed in Cadres Assessment Process

40050120b Beijing ZHONGGUO XINGZHENG
GUANLI [CHINA ADMINISTRATION] in Chinese
No 9, 16 Sep 88 pp 22-23

[Article by Zhang Zhaobeng 1728 0340 2609 of the Research Office of the Central Organization Department: "Several Issues of Importance in the Present Cadre Assessment Process"]

[Text] The 13th Party Congress has drawn up the general program for the reform of the country's cadre personnel system. In order to further the reform of the cadre personnel system and establish a state public employee system, one of the main tasks is to promptly institutionalize and standardize the cadre assessment system. My cadre assessment experiences in the past few years have led me to believe that supervision of cadres by categories, emphasis on real accomplishments, encouragement of competition, and the maintenance of democratic supervision are important principles for a sound cadre assessment system.

I. Assessment Based on Supervision by Categories

In the past, cadres were not clearly separated into different categories. Whether they were party and state organ personnel or mass organization personnel, and whether they were enterprise and agency managers or various specialized technical personnel, all were considered "state cadres" as far as their supervision was concerned, ignoring the difference in the nature of their work, their social responsibilities, and their professional attributes, and basically all were supervised the way party and government cadres were supervised. And on the whole, there was only one method, one set of

standards, to evaluate them all. This made it difficult to uncover the talented personnel and undermined the cadres' positive attitude, creativity, and initiative.

Different categories of cadres should be assessed by different methods and for different substance. Under the present situation where the cadres are separated only into government-type and business-type cadres, we can make an initial classification according to the way they became officials. For example, in the annual assessment of party and government leading cadres in the counties and cities, we should realize that these cadres are elected officials. Characteristically, they are responsible to the voters, and the evaluation method (*including assessment procedure, content, and format*) should be based on applicable parts of the Chinese constitution, the organic law, and the party constitution, and should include such forms as social assessment and supervision and public report and feedback. Personnel in local government organs are appointed, and they are responsible to their superior. The senior officers determine the specific duties and the actual assignments of the functional organs and prescribe the work conduct of these cadres via direct government decrees, and therefore the senior officers should be in charge of the annual assessment of these cadres. As for the assessment of the government-type cadres in responsible positions in official departments, because they are responsible to the National People's Congress via their responsibilities in government, basically, they should be assessed by the senior officers too. Furthermore, the cadres should be classified according to the posts they hold. Different job requirements of the different personnel should be carefully analyzed. For example, the job requirements of the party and government leading cadres at the county level is very different from those in bureau-level organs. As for the leading cadres in the counties and county-level cities, what is required of a chief differs significantly from what is required of a deputy. Therefore, we must tailor the cadre assessment standards to fit the different requirements they have to meet.

II. Establish A Reasonable Democratic Order and Scope

Since different assessment systems are used to assess different categories of cadres, it follows that different democratic orders and scopes should be set up under different situations to make cadre supervision more visible and open. For example, county level party and political leading cadres are elected by the Party Congress and the National People's Congress; therefore, according to the constitution, the party constitution, and the organic law, the scope of democratic evaluation of this type of cadre must broadly include society. The annual assessment of cadres who are appointed to their posts should be the responsibility of the senior officers—let the senior officers define the scope of evaluation, solicit public opinion, and offer his own written appraisal according to the principle of democratic public supervision. It should be pointed out that participation by the masses in the system of assessment by the senior officers should not be included in the

evaluation of cadres who are elected officials, otherwise it would weaken administrative efficiency and misdirect the cadres, leading them to cater to the people below. Democratic evaluation under the senior officer assessment system reflects the unanimity of the government-type cadres' responsibility to their employer and to the people. There must be mass participation and democratic supervision by the people in cadre assessment, but at the same time, there must be standardized procedure, otherwise mass line is just empty words. In this respect, we should consider, first, there must be mass participation within a certain scope, because without some mass participation, there will be little to reflect public opinion; however, we cannot simply assume that the greater the participation, the better the result. Second, we must have a fixed procedure, because without specific legal procedure, it would be difficult to give full play to or guarantee the people's role. Third, to satisfy the need to supervise the cadres by categories, there should be different democratic formats for different categories of cadres. Meanwhile, feedbacks should be a key link in the cadre assessment system: the results (*mainly the result of mass evaluation*) of assessment of government-type cadres should be made known to the comrades who have participated in the democratic evaluation process, and the results (*mainly the assessment by the senior supervising officers*) of assessment of business-type cadres should be reviewed with the subject by the supervisor. During the review, the subject should be allowed to defend and explain his position, and supplement or appeal the opinion of the assessment. Adding feedbacks to the process is a major improvement to the cadre assessment system.

III. Cadre Assessment Must Emphasize Real Accomplishments

To focus on the assessment of cadres' real accomplishments, letting their real accomplishments reflect their virtue and ability, is one of the important principles of the present cadre assessment system. In assessing cadres, we should evaluate the subject's actual accomplishments at work, his quality, and his conduct separately according to his position and job requirements. During the evaluation, we should integrate leaders and masses, integrate the subject's own work report and the collective assessment, and integrate quality and quantity, and we should evaluate comprehensively the cadres' virtue, ability, diligence, and accomplishment and other aspects. The merits of this kind of cadre assessment and analysis are: on the one hand, it lets a cadre sum up his year's work and lets him discover his own shortcomings and how he can improve himself. On the other hand, it helps us understand better a cadre's work situation and understand how the people evaluate his performance in different areas, unlike in the past, a single mistake could mean the repudiation of a cadre. Assessment can be a way to encourage the good cadres but also to spur on comrades who are lacking. The work reports should emphasize the substance of actual achievements; the democratic evaluations should give recognition to those achievements, and the qualitative assessments are the

substantive evaluation of a cadre's work achievements and problems during the year.

IV. The Assessment Procedure, Content, and Format Should Be Scientific and Easy To Implement

To begin with, the cadre assessment method should be "thorough in method, simple to implement." We should assimilate the merits of the traditional way of inspection and the new cadre assessment methods we have been exploring in recent years, and we should comply with the present law, the rules and regulations, and the party constitution and shorten the assessment period. We must stipulate clearly the assessment goal, target, content, format, and duration. The assessment procedure should be simpler than past procedures so that those responsible for the evaluations can handle the format and the method with ease and smoothly accomplish their tasks. During the cadre assessment period, we should also have different kinds of seminar and survey to thoroughly study and discuss the workability of the assessment program.

I think at present the cadre assessment process should emphasize the following characteristics: one, it should be open and democratic: in the past, cadres were evaluated mainly through personal interviews. Today, cadre assessment should become more democratic in an orderly way, and there should be a broader scope of mass participation. The qualitative comments should be reviewed with the subject, and the result of the democratic evaluation should be discussed with the entire body of examiners. Two, it should be scientific: regarding the content of the assessment, the cadre's personal qualities should be evaluated, but more importantly, his work achievements should be emphasized. With respect to the assessment method, verbal assessment and written evaluation should be integrated, and assessments by the masses as well as by the organization and the leaders should also be integrated. Three, it should be institutionalized and standardized: for the leader of organization responsible for the assessments as well as the subject himself, the determination of the scope of evaluation must be based on the party constitution and the law. At the same time, different democratic formats and scopes should be adopted for different categories of cadres to suit the characteristics of the different organs and give expression to the standardization of democratic order.

Call To Change Government Functions According to Enterprise Law

40050122 Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 10, 5 Oct 88, pp 27-28

[Article by Zhang Yinjie 1728 0683 2638: "Change the Functions of the Government According to Enterprise Law"]

[Text] The formulation of "Ownership by the Whole People Industry and Enterprise Law in the People's

Republic of China," hereinafter referred to as the Enterprise Law, clarified the legal position of China's enterprises owned by the whole people which had long been uncertain and established an enterprise system with particular Chinese characteristics for our present stage.

The heart and soul of the Enterprise Law lies in its separation of ownership and management rights. Based on the principle of separating the two rights, the relationship between the enterprise owner and the managers is basically made clear. Article 6 of the Enterprise Law acts on this principle to stipulate the rights and duties of the government or the responsible government departments. Article 7 fits in with this is not only stipulating the legal responsibilities of the enterprises, but also those of the government and cadres within the responsible government departments. Thus, the Enterprise Law have clarified the legal relationship between government and the enterprises and have put an end to historical government unwillingness to bear its legal burdens. In this sense, the administration or supervision that the government or responsible government departments exercise over the enterprise should no longer be arbitrary actions of a senior official but should be legal acts conforming to the Enterprise Law.

However, problems stemming from non-separation of government and enterprise still exist today. Government at all levels and the responsible departments still consciously or unconsciously meddle in the production and management activities of the enterprise and control matters that they should never be controlling, and in reality they can't control or control poorly. The enterprise reaction to this has been strong. A Party Central notice on implementation of the Enterprise Law pointed out: "Whether or not the enterprises come to enjoy the rights accorded them in the Enterprise Law depends largely on the external environment in which the enterprises engage in their commodity economy activities. Currently, the non-separation of government and enterprise remains a primary obstacle to strengthened enterprise vitality. The process of implementing the Enterprise Law should become a coordinated reform process centered around separating government and the enterprise." The This process should rely mainly on the Enterprise Law in earnestly effecting changes in government functions.

First, we must clarify the relationship between government and the enterprise. For many years now, the government has acted as the superior of the enterprise and direct government control over the enterprise has been taken for granted. Thus, whenever government department officials big or small have gone to the enterprise, they have gone as "superior leaders" with power to issue "directives" to the enterprise. For the first time, the Enterprise Law has put the relationship between the government and the enterprise in order and it is clear that the nature of ownership by people-owned industry and enterprise is "a socialist commodity production and management unit responsible for its own

lawful management, profits and losses and accounting." That is to say, the enterprise is an economic organization, not an ordinary government organ. The relationship between government and the enterprise is not an administrative relationship based on upper and lower levels of a hierarchy or leaders and followers but is rather a kind of macroeconomic control relationship. The enterprise itself should lawfully make its own decisions on how to manage, how to develop, how it will transfer its property, etc. All enterprise production and management activities that don't run afoul of the Enterprise Law and related laws are lawful. Henceforth, if government or the responsible government departments meddle in the internal affairs of the enterprise, they are not only out of their jurisdiction but they are also outside the law.

Second, changing government functions will require the government to use economic and legal means as the primary means of controlling the economy and the enterprises, and this should be supplemented with the necessary administrative means. Comparing the three different means of control, the legal means are the most unfamiliar to the people. Under the new circumstances whereby China's economic law progressively become sounder and the various legal relations grow increasingly clear, the government must make control of the economy and the enterprises according to law is primary means of control. The Enterprise Law was implemented 1 August of 1988 and the Bankruptcy Law will go into effect on 1 November. Then, a series of economic and administrative law will come on the scene including "Rules Prohibiting Enterprise Apportionment," "Rules on the Registration of the Enterprise as a Legal Entity," "Rules on Contracted Management," and "Rules on Management Leases." The superb legal environment that we have sought after is taking shape. Under these conditions, it is imperative that the government control the enterprises in a lawful manner.

Government should control economic activity more through the use of legal means and less through administrative means. The administrative means of control in the past were quite effective but more and more they don't suit the needs of government-enterprise separation or the new situation in the commodity economy. Henceforth, the government should look out over the enterprises from a new macro-control perch, strengthen its regulation and research, expend more efforts studying policy and government regulations, and use policies and laws to supervise activities in the enterprises and the economy. All government departments should strengthen their financial controls, auditing controls, tax controls and industry and commerce administrative and management controls over the enterprises according to the laws and regulations. And they should gradually reduce their administrative meddling in the internal affairs of the enterprises. The major work to be accomplished in changing government functions is for government to switch from using administrative means to control the enterprises over the use of economic and legal means.

Third, from a legal standpoint, the Enterprise Law have as their target State regulation of the market and market guidance of the enterprise. Thus, one of government's duties is to strengthen its guidance over enterprise behaviour through the use of macrocontrol. What is urgently needed is to "formulate policies to adjust industry and guide the enterprise in formulating development programs" in accordance with the Enterprise Law. Industrial policy primarily refers to action whereby the State takes into consideration the needs and possibilities of international and domestic economic and social development and national economic development strategy in formulating major measures and methods to encourage or depress industry in certain areas. This is not only a matter for the State, but also a responsibility of local government. At the same time, responsible government departments should assist the enterprises in formulating development programs. In particular, they should formulate long-range development programs one by one for those products with competitive strength. The government can best guide enterprise behaviour by doing a good job on these matters.

Fourth, provide service to the strategic decision-making of enterprise management. Under commodity economy conditions, strategic decision-making by enterprise management is directly related to the fate of the enterprise. Correct decision-making by management cannot take place without a foundation. In addition to relying on the quality of the entrepreneurs themselves in making decisions, the correctness of strategic decision-making primarily depends on the correct analysis and manipulation of market needs.

According to the Enterprise Law, government has the duty to offer advice and information to management making strategic decisions. This is because it is the government's function to administer to the economy and also take hold of means to regulate the market. The position and nature of the government and its wide field of vision give it the ability to grasp those huge amounts of information that the enterprises need but cannot fully understand. Once this information is grasped for the enterprise, it will greatly increase the level of strategic decision-making made by the enterprise. Currently, the problem is that government or responsible government departments do too much direct meddling in management and decisionmaking of the enterprises and consciously provide very little advice and service. This is a problem that urgently needs to be resolved. Administrative and management departments for industry and commerce can provide advice on matters regarding registration to the enterprise; foreign trade departments can provide information on foreign economies and foreign trade; commodity price departments can provide information on prices; supply departments can provide information on the supply and demand of materials, etc. This is also a big item to be worked on in changing government functions.

Fifth, respect the legitimate rights and interests of the enterprises. Section 58 of the Enterprise Law stipulates:

"No organ or unit shall encroach on the right of the enterprise to enjoy lawful self-determination in its own management and administration; no organ or unit shall apportion enterprise manpower, materials or finances; no organ or unit shall require an enterprise to set up an organization nor stipulate the number of staff members to be in an organization." This section is written in the Article dealing with the "Relationship Between the Government and the Enterprise" and is directly on point.

The state has already adopted numerous measures in 10 years of reforms to enlarge the self-initiative of the enterprises. However, throughout the 10 years we have frequently heard strong cries from the entrepreneurs. For example, the lifeblood of the self-initiative that the State has bestowed on the enterprises has been drawn off drop by drop leaving the enterprise with no self-initiative. Government and the responsible departments should fully recognize the severity of this phenomenon. All those rights of self-initiative and management that clearly belong to the enterprise as per the stipulations in the Enterprise Law should be fully extended to the enterprises.

Government and the responsible government departments should use the Enterprise Law as the criterion to resolutely cease all apportionment behaviour respecting enterprises. They should acknowledge that after an enterprise has paid its taxes to the State in accordance with the law, it has no more economic duties to perform. No government department at any level has the right to demand personnel, money or materials from the enterprise. If money, personnel or materials are needed from the enterprise for public social welfare endeavors, local laws can be formulated and be made public to accomplish this.

In order to better effect changes in government functions, thinking and ideas must be changed.

First, strengthen the concept of the legal institution. For a long time now, there has been an idea in the minds of the people that the government is incapable of breaking the law. Now that the Enterprise Law or Bankruptcy Law have been or are about to be implemented, an integrated system of economy and law is taking shape. Section 63 of the Enterprise Law stipulates the administrative responsibilities of an enterprise or the leading cadres of the concerned government departments who had incurred great loss to the enterprise or the government due to a dereliction of duty, and the criminal responsibilities for loss of enterprise property, state and peoples' interest due to neglect of duties. This illustrates that the government and leading cadres may be called on the carpet for violations of law, and that in their dealings with enterprises, government departments and their heads must also conduct themselves in accordance with the law.

Second, we must think more about service. Currently, some government departments issue directives down to the enterprises, but disguise their actions in the form of a contract. To a certain extent, this can hurt the enterprise more than control over their plans. This situation must be changed, and government should earnestly demonstrate its service function.

Finally, we must improve methods and style of work. the Enterprise Law stipulates the operational orbit under commodity economy conditions. Persons working for the government should adjust their work methods, establish a new working style, change the longstanding process of committees, talks, documents, reports, investigations, and appraisals and all other methods of control that fall clearly within the field of administration. This should all be done according to the requirements of the Enterprise Law. We should now draw support from the Enterprise Law to resolve these problems that have long vexed us.

NATIONAL AFFAIRS, POLICY

Analysis: 'Cannot Sidestep' Price Reform
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[Article by Yang Shengming 2799 5110 2494: "Price Reform Poses Risks But Cannot Be Avoided"]

[Text]

I. There Is No Sidestepping Price Reform

There are five major reasons why price reform has become a strategic barrier in economic structural reform that must be surmounted. They are as follows:

First, price reform is a route we must take in our transition from a natural or semi-natural product economy to a socialist planned commodity economy. Both the basic principle of the commodity economy—the law of value—and its other principles, such as the law of supply and demand, competition, and the law of profit averaging, can play their proper role only through and via prices. Needless to say, only in a commodity economy can prices fulfill their regulatory, signalling, distributing and accounting functions. If we fail to reform the price system of the semi-natural product economy, already so grossly distorted that it is beyond recognition, if we fail to resolve the problems of the price management system—excessive rigidity and over-centralization, we will have difficulty creating a commodity economy and may even undo what little achievements we have had in bringing about such an economy and allow the semi-natural product economy to return. To develop a commodity economy, we must reform the price system without delay. This is a test we must pass. Otherwise, developing a commodity economy would be mere idle talk.

Second, price reform is a hurdle we must overcome as we transform enterprises from the appendages of administrative agencies into relatively independent commodity producers and operators armed with decision-making authority in their operations which are responsible for their own profits and losses and are full of vitality and energy. Enterprise reform lies at the heart of economic structural reform. It involves, on the one hand, refashioning the microeconomic basis of enterprises, that is, ownership system reform, and, on the other, remaking the operating mechanisms of an enterprise economy, which mainly entails introducing market and price mechanisms into the enterprise. The two are complementary; we cannot do without either one. We must forge ahead along the two major themes of ownership reform and the reform of operating mechanisms. The practice of reform has proved and will continue to prove that only by organically combining the remaking of the enterprise microeconomic basis with price reform to make them foster each other can we truly introduce

market and price mechanisms into the hundreds of thousands of enterprises, particularly the thousands of large and mid-sized enterprises, and turn what used to be appendages of administrative agencies into relatively independent commodity producers and operators that enjoy decision-making authority and are responsible for their own profits and losses. Sever the relationship between enterprise reform and price reform, set one against the other, or tackle enterprise reform while shelving price reform for a later period, and we will not be able to pull off enterprise reform.

Third, price reform is a barrier we must overcome if macroeconomic control is to cease being dominated by direct control and become mainly one of indirect control. Large-scale social production and commodity monetary relations demand that the state regulate the economy at the macro-level. What form should such regulation and control take? The answer depends not on the nature of the state, but primarily on the nature of the type of economy. With the rise of the commodity economy, macroeconomic regulation by the state inevitably ceases to be dominated by direct administrative coordination and becomes primarily indirect economic coordination. Of all methods of indirect economic coordination, the price mechanism occupies an outstanding position. Prices are an important tool of macroeconomic regulation and control. Under the new economic operating mechanism, "the state regulates the market, the market guides enterprises," both the former and the latter must depend on the price mechanism. China's current price system remains highly irrational and its shortcomings have not been cured, rendering it difficult for the state to determine whether an enterprise has performed well or otherwise and whether it should be rewarded or punished and to help steer it onto the correct path. Thus price reform is a must if we are to perfect the tools and methods of macroeconomic regulation by the state and improve state-enterprise and enterprise-market relations.

Fourth, price reform is the only way to optimize resource allocation, promote technological progress, and raise profitability. Gross waste, low efficiency, and structural economic irrationalities are longstanding problems in the development of the Chinese economy, problems that have seriously hampered the transformation of the economy from an extensive mode into an intensive mode. As long as these problems remain unresolved, economic take-off will be out of the question. While the reasons that have brought about this state of affairs are complex, an irrational price system and distorted price signals cannot but be considered a crucial factor. Popular products much sought after on the market are usually high-priced and very profitable. Since they are good money-makers, they attract large sums of investment, leading to duplication in plant-building and scientific research. Sometimes even obsolete technology is resorted to, the inevitable result of which is gross waste and worsening resource allocation. On the other hand, most unpopular products are low-priced and marginally profitable. The

plants that make them sometimes even suffer heavy losses and have to survive on state subsidies since nobody wants to invest in these industries and products. State subsidies for unpopular products have become a heavy and growing burden on the treasury, significantly undermining the financial capacity of the state for economic development. To revitalize the economy, unburden the state fiscally, optimize resource allocation, and rationalize the economic structure, we must reform the price system by shifting to a new price model.

Fifth, price reform is the only way to replace the traditional price model with a new one. A variety of external factors relating to the overall national economy determine that we cannot sidestep price reform. Not only that, but prices themselves and their constraints on the national economy also make price reform a matter of urgency. The years 1979-84 constituted the stage of mobilization and preparation in price reform in China when the emphasis was on regulation. Since 1985, the focus of reform has been decontrol. Although the reform was largely a success, the problems remain considerable. The revival of the price ratios of agricultural products have again pushed grain prices to the bottom of the heap, causing grain and pig output to fall and affecting market and price stability. The increases in assorted price subsidies proved to be a crushing burden on the national coffers, slowing down the progress and strength of economic construction. The dual track pricing system as applied to means of industrial production has become a hotbed of official and business corruption and all manner of economic crime. The steady and substantial increase in the overall price level has shaken the entire society and caused sharp reactions; it is a hot topic that is on everybody's lips. The resolution of these problems brooks no delay.

II. Why Price Reform Is the Riskiest Test Facing Us

Price reform presents us with the most formidable and risky test. This assessment is based on the following reasons:

First, price reform will run into the opposition and resistance of vested interests, be they industries, localities, groups, enterprises, or individuals, and is fraught with social risks. The interests of producers, circulators, and consumers are woven into a network through prices, dependent on and checking one another. The old price system represents a pattern of the distribution of interests. Reform the old price system and you upset the existing pattern of interest distribution. Establish a new price system and you have a new configuration of interests. Thus the essence of price reform is a great readjustment of social economic interest relations, a total rearrangement of economic distribution. In this big upheaval, the vested interests of different sectors, localities, groups, enterprises, and individuals will necessarily be affected. For instance, a major increase in the prices of energy and raw materials will raise the incomes of their producing sectors and regions appreciably while

reducing the earnings of those sectors and regions that consume these products. This will lead to major changes in the economic relations between the state and regions, between regions, and between sectors. When the steel price increase plan was being worked out in 1986, steel-consuming enterprises and sectors demanded that the state increase its subsidies or reduce the amount of taxes payable by them by more than double what the state stood to benefit from the price increase by steel-producing enterprises. Facts show that it is quite difficult to adjust the pattern of interests through price reform. No price reform plan can make every region, sector, group, enterprise, and individual a winner. There is no perfect price reform plan—somebody is bound to lose out or see its vested interests taken away. Here lies the economic root of the risk of price reform.

Second, there comes a point at which price reform becomes inconsistent with excessively fast economic growth. Dual burden and pressure are just too much for the national treasury. Fundamentally price reform is compatible with fast economic growth. In the long haul, the two go hand in hand and nurture each other. Price reform encourages fast growth, while the latter in turn creates the right conditions for price reform. Without strong economic growth, we cannot guarantee the financial sources needed for price reform. Thus an appropriately brisk pace of economic expansion is the basis and precondition for successful price reform. However, the current excessively fast rate of economic growth is in many ways inconsistent with price reform, an inconsistency epitomized by their competition for funds. Price reform costs the state massive sums of money, at least tens of billions of yuan, while an economy racing ahead at a rapid rate unaccompanied by significant gains in profitability also soaks up an enormous amount of inputs and funds. One task awaiting us is how to reconcile price reform with overly rapid economic growth in fiscal hard times and ameliorate and even eliminate the dual pressure and burden on the government treasury. Four possible scenarios: 1) Stress price reform at the expense of growth rate. Cut back on the scale of investment in capital construction drastically. Close, suspend, and merge some enterprises and convert others into other lines of business. Lay off some workers. 2) Stress economic growth rate. Keep up economic expansion at a brisk pace. Go slow on price reform. Lower the targets and demands of price reform, perhaps even making it a mere "formality." 3) Emphasize both price reform and excessively fast economic growth. Speed up price reform even as the economy is expanding quickly. Because of the hard restraints of fund, fast growth may become bogged down in the "price trap" while price reform gets mired in "stagflation." 4) Sound price reform goes in tandem with a reasonable rate of economic expansion. Stable economic development sets the stage for price reform. At the same time, the latter opens the way for economic development. We are working hard to bring about the fourth scenario and avoid the first three. Nevertheless the first three scenarios may occur. Let us leave aside the fact that we remain divided on whether or

not to slow down economic growth. Even if we do reach a consensus on this point, it remains very difficult to slow down the economy because the principal investors these days are no longer the state, but localities and enterprises. If the first three scenarios, especially the third scenario, materialize, the situation will be rife with risks.

Third, price reform amid inflation is both highly difficult and risky. Estimates put the current inflation rate at around 18 percent. Price reform under this condition has a dual mission. On the one hand, it has to rein in the rise in the overall price level resulting from adjustments in the price structure. On the other hand, it must check the rise in the general price level caused by a bloated money supply. Price reform originally has only one mission, the former. But price reform that takes place amid inflation necessarily has one additional mission thrust on it, the latter. In the real economic world, the two missions are so closely intertwined that it is hard to figure out what the real achievements and effects of price reform are. In inflationary times, every enterprise operates by the principle of "a rising tide lifts all boats." The inevitable upshot is a return to old price ratios. Price reform degenerates into a superficial job, a waste of effort. Based on historical experience and theoretical analysis, once inflation reaches a certain level, the inflation-induced price increase rate will exceed the growth rate of the money supply possibly several times or even scores of times. Once that happens, there will be runaway inflation that just cannot be brought under control. Precedents abound in the world.

Since inflation jeopardizes price reform, we should get rid of it. But this is easier said than done. The problem of pumping too much money into circulation was raised a long time ago, yet instead of being tamed, it is worsening by the day. Inflation is intensifying. Why? Two sets of reasons, practical and theoretical. Concerning practice, industrial and commercial enterprises, capital construction units, and particularly township enterprises complain loudly about the lack of funds. Tighten the money supply ever so gently and they seem to tumble into an economic crisis. Barely profitable, they feel strapped for cash even after grabbing funds from the national treasury and banks. They scramble for funds everywhere, resorting to all sorts of methods to force banks to put more money into circulation. In terms of theory, the "inflation is good" school of thinking is the epistemological source of a bloated money supply. In the West, this theory is now passe and has few followers. It is certain that it would not find a receptive audience in China today. That being the case, checking and even stamping out inflation cannot but be the top priority of price reform. No way can price reform take place amid inflation. Otherwise, we will be taking a great risk, including the failure of price reform itself.

Fourth, to launch price reform at a time when enterprises are hardly able to internalize price increases runs a tremendous risk of causing price spirals and bringing

back old price ratios. In price reform, we have to tackle such problems as the underpricing of agricultural products, energy, minerals, and basic raw materials, and the fact that a whole array of fees and charges, notably rent, are set at too low a level. To achieve this, we depend on the ability of enterprises to internalize the increased costs, on the micro-level, and on the government taking a number of measures, on the macro-level. Increases in the prices of agricultural products are mainly to be absorbed by industrial and commercial enterprises, while increases in the prices of energy, minerals, and basic raw materials must essentially be internalized by processing enterprises. Increases in assorted charges and fees in the tertiary sector are to be absorbed by the primary and secondary industries. The ability of enterprises to absorb such increases is pivotal to the success of price reform. For reasons that have to do with technology and management, however, enterprises at the moment have a very limited absorption capability, with most absorbing merely 10 to 20 percent of price increases. Some enterprises simply cannot internalize any such increases at all. Moreover, we have no policy on cost absorption and enterprises are under no pressure to do so. A seller's market makes it possible for enterprises to pass on the extra costs, which is what an overwhelming majority of enterprises do. They transfer the costs among themselves, causing a chain of reactions down the line. The inevitable result is successive price increases. Since all enterprises subscribe to the notion that a "rising tide lifts all boats," it is hard to bring about a price adjustment that includes price decreases as well as price increases. The natural upshot is a return to old price ratios. In the end, the overall price level has gone up, but price ratios remain unchanged; products that were underpriced are still at the bottom of the price totem pole, and products that used to be overpriced are still at the top. Even if this outcome poses no risk, it is a waste of effort, a superficial job. To ward off such an outcome, the state can take mandatory measures to force enterprises to absorb the extra costs, thus turning voluntary absorption into compulsory absorption. Maybe a majority of enterprises can internalize the extra costs due to price increases. But what is certain is that some unprofitable enterprises will be unable to do so and forced to go out of business, becoming candidates for closure, suspension, merger, or transfer to a new line of business. A chain of social problems will ensue, but clearly we must take some social risks.

Fifth, price reform tends to lead to social unrest and upheaval when residents have a limited tolerance for such reform. As noted above, price reform that takes place amid fiscal difficulties and inflation and when enterprises are ill prepared to internalize the rising costs is necessarily accompanied by a substantial increase in the price level. In that kind of situation, we must accurately gauge the psychological and economic tolerance of the residents for price increases. Right now the living standard is still quite low. The people have barely enough food and clothing and have not yet achieved a modest level of material well being. Daily necessities,

which are price-inelastic, make up a large part of the consumption mix, while means of enjoyment and development, which are more price-elastic, constitute only a minor share. Residents feel the pain keenly when the prices of daily necessities go up, but respond more slowly to increases in the prices of means of development and entertainment. This characteristic of their consumption pattern determines that residents have relatively little tolerance for rising prices. Inflation of the same magnitude may be acceptable to the people of developed or moderately developed nations and will cause little trouble there. In China, however, where the standard of living is lower, it may prove unbearable and trigger social problems. We must do our best to make price reform benefit the maximum number of people. Not only must we try to avoid lowering the living standard, but we must improve it continuously on the basis of rising production. At the same time, we must ensure that the people's monetary assets (bank savings, all kinds of bonds, and cash on hand) do not depreciate. To keep savings at a steady level, avoid mass withdrawing from banks to finance panic buying, and prevent certain enterprises from borrowing heavily with no regard for its effect on their balance sheets, we must first raise interest rates on deposits and loans to slightly above or at least to equal the inflation rate, that is, ensuring that the interest rate is the true rate of return. Should prices increase notably faster than the residents' cash earnings, they will suffer a decline in real living standards. On the other hand, when prices increase appreciably faster than the interest rate, pushing it into the negative, the residents' monetary assets will depreciate significantly. When this comes to pass, hardship households who have seen an erosion in their living standards will join forces with affluent households with considerable monetary assets to oppose price reform.

III. Strategic Principles That Will Help Us Diffuse Danger and Pass the Price Reform Test

First, stabilize the economy and straighten out the economic environment to set the stage for price reform. First and foremost, we must gradually rein in the racing economy to within 10 percent, preferably between 7 and 8 percent so as to save some financial resources for price reform. Provided we maintain economic expansion at this level on a long-term basis, we will certainly be able to join the ranks of developed nations in the near future. In the first 5 months of this year, industry grew 17.1 percent over the same period last year, far more than the 8 percent called for in the national plan and approaching the 17.7 percent recorded in 1985 when the economy was overheated. If we fail to slow down this excessively fast rate of expansion and make some room for price reform, the latter will become almost impossible. Second, given the economic growth rate in China and the extent to which its economy has been monetarized, we should gradually trim the money supply growth rate to below 15 percent in order to reduce to the minimum the inflation-induced increase in the overall price level and make even more room for structural price adjustment. In

essence, price reform is decontrolling prices and allowing the market to regulate them. Correspondingly, we must tighten the money supply. Price "decontrol" and a "tight" money supply complement each other. Should we decontrol prices even as we go easy on the money supply, the economy will get out of hand. Moreover, we should strengthen enterprise management, improve enterprise quality, tighten cost accounting and cost supervision, lower consumption, and enhance their ability to absorb rising costs. If strictly controlling the amount of currency in circulation is a minimum macroeconomic condition for price reform, then improving the margin of profit of enterprises is an indispensable microeconomic basis for price reform.

Second, make a comprehensive plan, carry it out in stages, and concentrate our resources on winning battles of annihilation. The price system is rife with problems, notably the underpricing of minerals, energy, and raw materials; the underpricing of grain procured on contract; the gap between procurement and sale prices; and the fact that a variety of fees and charges are set at too low a level. However, owing to limits on the fiscal capability of the state, on its ability to exercise macroeconomic control and regulation, on the ability of enterprises to absorb price increases, and on the tolerance of residents, we cannot hope to achieve price reform in one fell swoop. Hence the need for comprehensive planning and step-by-step implementation. Some people argue that we tackle agricultural prices first because agriculture is the foundation. If the foundation is not stable, it is said, everything else will be that much more difficult. Some believe that we should first grapple with the prices of minerals, energy, and raw materials because they have an impact on revitalizing large and mid-sized enterprises, on improving profitability, and on augmenting the state's financial resources. Yet others contend that we should first bring about the commercialization of housing because it would relieve the state of a heavy burden and open up a new source of revenues. In our opinion, the first priority should be the prices of minerals, energy, and raw materials. As long as this problem remains, it would be well nigh impossible to revitalize large and mid-sized enterprises or raise their profitability, the state's primary source of revenues would remain problematic, and enterprise reform would not be any easier. Certainly, even as we concentrate our energies on resolving the prices of means of industrial production, we should still set aside some resources to tackle the underpricing the agricultural products and housing commercialization. For instance, the prices of grain procured on contract and rents may be increased by an appropriate margin and part of the old and new housing stock may be sold. Be that as it may, it should be made clear that energies must be focused on tackling the prices of energy, raw materials, and minerals during the first stage. Only when this problem is basically worked out can we launch the second and third battles and divert the bulk of our attention to other pricing issues.

Third, implement the principle of the sequential processing of social products even as we sort out the prices of

means of production in industry: start out with the prices of primary products and then gradually move on to those of processed products, with emphasis on the former. Take the iron and steel business, for instance. We must proceed from ores through pig iron and steel to mechanical equipment, in that order. That is the only way to bring order to pricing. Should we arbitrarily seize on one product (say, steel) and adjust or decontrol its price, not only will we fail to rationalize the price system, but we may actually disrupt the original price structure entirely and make what were irrational prices even more so. A similar problem exists in the fuels, chemical, and electrical industries. When the price of coal does not make sense and almost the entire industry loses money, there is no scientific basis for the rationalization of the prices of thermal power and train freight. If we do not start with coal prices and just tinker with thermal power and train freight, there is no way we can come up with a rational price system. The low prices of the nation's crude oil and coal produced under the plan conceals the backwardness of our chemical industrial plants. Only by zeroing in on the prices of crude oil, gas, and such basic industrial chemicals as acid, alkaline, and salt can we straighten out the prices of the products of the chemical industry. The same situation exists between agriculture and industry. If we do not rationalize the prices of agricultural products, there too would be no scientific basis for rationalizing the prices of those light industries that depend on agriculture for raw materials. A similar relationship also can be found between industry and the building industry. In short, price reform must follow the principle of the sequential processing of social products in the overall national economic context so as to sort out China's price system. For beginners, we must achieve a breakthrough in the pricing of primary products.

Fourth, to sort out the price system, we must abide by one other principle: profit averaging. There is only one way and one yardstick to determine whether prices are reasonable between sectors, between regions, between industries, between groups, and between China and the rest of the world, namely the rate of average profits. Whether the price in question is an official price or one set by the market, as long as a majority of enterprises earn an average profit, it must be deemed reasonable and acceptable to enterprises. Otherwise, it should be considered inequitable and unacceptable to most enterprises. Sun Zhifang [1327 3112 2455], the well-known Chinese Marxist economist, once compared profit to the nose of an ox. Today it seems that profit is indeed the nose of the national economic price system. As long as we lead the ox by the nose instead of raising its legs, the price system as a whole would become increasingly rational by the day. People who opposed the principle of profit averaging in the past often rejected the free transfer of fund and labor under socialism. Since reform began, the appearance of fund and labor markets has provided a tangible forum and conditions for the transfer of these elements. Such transfers have been multiplying, from industry to commerce, from commerce to tourism, from agriculture to industry, and vice versa, both open and hidden, direct

and indirect. In other words, the trend toward profit averaging is directing economic life in a quiet way.

Fifth, apply different forms of prices and price management methods depending on the characteristics of a product and its supply-demand situation. In the area of prices, how are we to marry planning with the market? As we see it, diversified forms of prices and price management methods are required. At a minimum, we should differentiate between these four sets of circumstances and apply different price types and management methods accordingly. 1) Differentiate products by their production characteristics. In the case of industries which enjoy an absolute monopoly and face no competition on the market, such as water supply, gas, railways, posts and telecommunications, and urban public transportation, all their products and services should be priced by the government, not the enterprises. Neither market prices nor the dual track pricing system apply to them. Their prices should not remain unchanged for 5 or 10 years. When the product or service becomes underpriced, the state must adjust it promptly to bring about an average profit. Or the state may subsidize the industries to make sure the interests of their workers do not suffer compared to their counterparts in other industries. In the case of industries that are non-monopolistic and face market competition, the prices of their products should be determined by the market. Some products may fall under the dual track pricing system. In market economies in the West, about 15 to 20 percent of prices are set centrally by the state. The figure should be slightly higher in China. In other words, price control should be lifted from a maximum of about 80 percent of all products. 2) In the case of a key commodity, say steel or coal, it should be partly controlled and partly set by the market, the ratio between the former and latter changing as production and the supply-demand situation change. This proportionate dual track pricing system was born in the course of price reform and has obvious advantages and disadvantages. Accordingly, its scope should be progressively reduced until it finally disappears. But like its appearance, its demise will be conditional on objective conditions and take place over a period of time. It seems that we have no choice but to resort to it in the case of a small handful of commodities for some time to come. 3) In the case of some commodities such as grain and timber, their use value (or quantity) should be determined by the plan in order to ensure adequate supplies for the state through contracting, while their value (or price) should be set by the market. This arrangement is what they usually call "controlling the quantity, decontrolling the price." In essence it is planning the use value of a commodity with the market setting the price. This method should be applied to grain procurement at the moment. 4) We should use calculated prices (also known as audited prices, accounting prices, optimal planned prices, shadow prices, theoretical prices, and decision-making prices) to supplement and correct market prices. Without calculated prices, there can be no price expectations. Calculated prices are simulated market prices. A calculated price is both

opposed to and united with a real exchange price. The two are complementary and not mutually exclusive. The four types of situations described above each have their own applications and are not mutually exclusive. Nor can one be substituted for the other. They should coexist, supplementing one another, and develop together for a long time to come. As the commodity economy develops, the proportion of market prices and semi-market prices will increase until it reaches a maximum 80 percent of all prices.

Sixth, timely and necessary administrative intervention. Under no circumstances can price reform exclude state intervention in pricing. Timely and necessary administrative intervention is a condition for successful price reform. Within the price reform environment, we may freeze the prices of major consumer goods in the short run even as we concentrate on tackling the prices of means of production in industry, or freeze the prices of major means of production in the short run even as we concentrate on dealing with the prices of agricultural products and miscellaneous fees and charges. That way we draw a line between different kinds of prices and create a certain "time differential." Not only will this encourage industrial and commercial enterprises to internalize more of the rising costs, but it will also enable us to observe the effects of various price reform measures and take targeted steps in a timely way.

Seventh, coordinate price reform with wage reform to ensure that the vast majority of residents will experience a rise, not a drop, in living standards as production increases. Wage is the price of labor and belongs among generalized prices. Its rationalization and organic links to other prices ultimately depend on the competitive mechanism on the labor market, which has yet to undergo further reform. In the current price reform, the first thing to be resolved is making good the erosion caused to wage increases by price hikes. Between 1985 and 1987, prices jumped 23.7 percent 3 years in a row. Meanwhile wages remained basically unchanged. That is a wide gap and has provoked numerous complaints. Wage compensation should be prompt. There should be no foot-dragging or procrastination here. The principal method of wage compensation is pegging basic wage to the cost of living index. Indexing is a bad move: it may cause prices and wages to rise in turns even as profitability lags. On the other hand, it is quick, clearly understood, and easily acceptable to the majority of people. There is no other alternative. But we must not stop with wage compensation. Instead we should also ensure that real living standards go up 4 percent annually as projected in the Seventh 5-Year Plan. If wage targets are not met, problems may arise even though production targets are fulfilled. As for the rationalization of the wage structure, that is something to be sorted out through wage reform.

Adopting the above strategic measures will greatly reduce the risks of price reform and enable it to advance steadily along the road of socialism with Chinese characteristics.

Economists View Reform

Effects of Inflation

40060158a Beijing JINGJIXUE ZHOUBAO in Chinese
20 Nov 88 p 2

[Article by Zhong Pengrong 6988 2590 2837: "The Consequences of Inflation in China—Inflation Levies a 'Tax on Money' Which Does Not Benefit the Central Government But Is Taken Away by the Invisible Hand"]

[Text] Most people detest inflation, but one often reads newspaper reports on people advocating using inflation to stimulate economic growth. This belief is based on the theory that, one, inflation can put idle resources to use; two, inflation can help gather funds for construction.

China indeed has too many idle resources; more than the West had even during a depression. The question is, can inflation effectively put these idle resources to productive use? This really depends on why and in what way these resources are idle.

It is my understanding that generally China's resources are idle under five different conditions: One, systemic disuse of the labor force—the "iron rice bowl" labor system has resulted in about 30 million unemployed in China. Two, systemic disuse of the means of production—the "soft budget constraints" in bank credits and an enterprise which does not allow closures make it difficult to put idle facilities to use while the investment system which lets government officials make all the decisions keeps on producing more idle facilities. Three, structural disuse of means of production—limited by bottleneck resources such as energy resources and raw materials, substantial productive capacity in the processing industry cannot be put to use. Four, structural disuse of products—because the product-mix does not match the demand-mix of products, and because of mass production and shoddy workmanship, even though the total demand exceeds total supply, many products remain unsold. Five, idle products resulting from hoarding—these include hoarding of raw and processed materials used in the production sector, commodities in short-supply in the market sector, and commodities in the consumer sector whose prices are expected to rise.

Since the implementation of the contract system, the state has stopped lowering taxes or yielding profits to the lower levels. Enterprises burdened with excess personnel must resort to raising product prices in order to shift the higher total wage bill to the consumers. If the total supply and demand is basically balanced, it would be more difficult for enterprises to raise prices. In an inflationary situation, because there is too much money chasing too little goods, enterprises can easily raise prices and pass on the inflated wage bill to the consumers. As a result, inflation does not get rid of the excess personnel but makes room for a even bigger staff. Whether the means of production are idled because of the economic system or the economic structure, they are the result of too many

bad investments. Increasing the credit volume and loan amounts not only cannot put the idle means of production to use but makes it easier for local party and government leaders who are compulsive investors to get hold of more funds and generate even more futile investments and idle facilities. Structural disuse of products is not because of insufficient demand but because the product variety and quality are not popular. Pursuing an inflationary policy to increase demand can neither make the consumers buy the poor quality goods which they do not want, nor can it stop the further production of more poor quality goods. On the contrary, more credit and inflation only enable enterprises which produce unmarketable goods and poor quality products to get more funds and produce more unwanted goods. Hoarding is the people's defense against inflation. Inflation cannot get rid of the idle goods people are hoarding; it can only force people to hoard more goods. In short, China's idle resources are not because of insufficient demand but because of a series of systemic factors. As long as these systems remain, inflation can only create even more idle resources.

Below, we will analyze the ability of inflation to boost accumulation. In a country with a market economy, inflation boosts accumulation mainly in two ways: one, it turns a part of the real income into profit and, in turn, into enterprise accumulation. Two, it imposes a tax on money and also puts this "money tax" to effective use in production and construction. Whether inflation has the same ability to enhance accumulation under China's present system is also a question of whether inflation can turn some of the real income into enterprise accumulation and whether inflation can similarly put the "money tax" to effective use in production and construction.

For inflation to be able to turn some of the real income into enterprise accumulation, the workers must first have a "money illusion," and enterprises must have two contrasting interest groups: those who earn income versus those who make profit. In an inflationary situation, the profit-makers take advantage of the workers' "money illusion," and as long as they can keep the rate of increase in money wages below the rate of price increase, enterprises can make more profit and increase accumulation. In China, the workers have no "money illusion," and enterprises do not have the two contrasting interest groups. Because prices have always been stable, when there is inflation, even though money wages are rising faster than product prices, people still think that their standard of living is falling, and they are very upset, fully reflecting their "abnormal money illusion." And because of the unanimity of the interests of enterprise managers and workers, amid inflation, real wages are not turned into profit in order to increase enterprise accumulation; instead, they take advantage of the inflation and turn some of the profit, and even the compensation funds, into bonuses and welfare funds. Because with inflation and higher prices, the nominal value of enterprise production funds and commodity funds also rises, but enterprises pay their profit tax and collect compensation

funds based on the original monetary value, and so some of the profit and compensation funds become their retained profit which in turn becomes workers' bonuses and benefits. When enterprises run out of reproduction funds, they take out more loans from the bank.

Inflation imposes a tax on money (including bank deposits and cash.) This is a fact. But there is a relationship between the destiny of this "tax on money" and inflation. Under China's present situation, inflation is not caused by the government's printing too much money in its attempt to raise construction funds but by too many bad investments, groups that indulge in excessive consumption, redundant personnel, and too much "official profiteering." All these elements increase demand but not supply. They are like an invisible hand that takes away much of the goods and materials which are already in short supply in the market, causing inflation and higher prices. Thus, under China's existing system, the "tax on money" imposed by inflation does not benefit the government but is taken away by the invisible hand. Amid inflation, the government not only cannot gather more construction funds but much of its revenues simply vanishes into the thin air.

In short, under China's existing system, inflation can neither put the idle resources to use in production, nor accumulate funds to help the economy grow. On the contrary, it encourages redundant construction and useless investments, creating more idle resources. It turns much of the state revenues and compensation funds into bonuses and welfare funds which in turn become consumption funds for the groups. Thus, under China's present system, inflation produces not positive but negative effects. More importantly, amid inflation, what is being devalued most is not money but knowledge and intellectuals—college students quit and become businessmen, graduate students are dropping out, and many scientists and researchers are forced to abandon their research jobs in order to make a living. If this is allowed to continue, China will lose the crucial element for modern economic growth—knowledge.

Disadvantages of State Ownership System

40060158a Beijing JINGJIXUE ZHOUBAO in Chinese
20 Nov 88 p 2

[Article by Ji Bing 4949 0365: "Government Ownership—the Sickness and Its Cause—an Interview With Young Economist Zhong Pengrong"]

[Text] Reform of the ownership system inevitably will be one of the major issues facing the next phase of thorough reform. For this reason, the paper has interviewed Zhong Panrong who is an expert in this area.

On the subject of the people's ownership system, Zhong Pengrong said that in reality all the people cannot claim direct ownership, and so the state has been exercising the ownership rights. But the state cannot directly own

everything either, and so all levels of government have claimed ownership. Under the circumstances, the people's ownership system has evolved into a government ownership system.

This conclusion is based on the following:

One, enterprises are set up and run by the various levels of government, or in other words, by government officials at various levels.

Two, funds for setting up enterprises are raised by the government.

Three, enterprise management is assigned by the government, and enterprise workers are hired by the government.

Four, enterprise profits and losses are the sole responsibility of the government.

Thus, every aspect of enterprises, including management, is an integral part of government, and therefore, this ownership system has evolved into a typical government ownership system.

How does the government ownership system jeopardize the economic tasks?

Bloating Useless Investments: Defect Number One of the Government Ownership System

Among the present economic problems, the accelerated economic growth and excess scope of investment are acknowledged by all. But Zhong Pengrong maintains that China's present problem is not excess investment but insufficient investment. The reason is, China's present rate of investment is several percentage points above the economic growth rate, but in the Japanese post-war economy, the investment rate has usually been three times the growth rate, even topped seven-fold at its height. For a country like China which is still trying to become industrialized, large scale investment is essential. Therefore, China's development problem is not excess investment but unprofitable and futile investments. The culprits are: one, there is gross irresponsibility and lack of scientific concern in the inspection, design, and construction links, so that despite the huge input of investment and construction funds, little productive capacity has been generated. Two, some investment projects are inherently futile. For example, numerous local construction projects of cotton and textile mills, cigarette factories, and wineries are redundant and are vigorously competing for energy resources and raw materials. In particular, when the rest of the economy is growing at a rate of around 20 percent, the energy, communications, raw material, and other industries are growing at only 10 percent or so. This clearly forewarns that the processing industry which surges ahead blindly will fail sooner or later.

What has led to the serious futile investment problem? The government ownership system is responsible.

First, under the government ownership system, investments by the officials tend to have political objectives. What they pursue is the doubling and redoubling of the value of output and high growth rate and other goals which can be looked at as political achievements. As a result, economic benefits inevitably must play a secondary role.

Second, the result of the investments are not the economic nor the legal responsibility of the investor.

Third, in China, most officials must attend to numerous affairs of state everyday. They have to take care of everything, but are ignorant of most investment projects. Often, they just "pat their head and approve a project, and strike their chest and guarantee a loan."

Because of the above conditions, futile investments in China are just inevitable.

Poor Enterprise Management: Defect Number Two of the Government Ownership System

In Zhong Pengrong's opinion, the effects of the government ownership system on economic performance can be found not only in enterprise investments but also in the management of existing enterprises.

First, because of the irresponsible investments, whether an enterprise will make or lose money is already decided at the time it is set up. Therefore, asking all the existing enterprises to take care of their own profits and losses is asking for the impossible. So, the fact that enterprises can only take care of their profits but not their losses is the main reason for the poor enterprise economic performance in China.

Second, since enterprises are set up by the government, the government cannot just abandon them, and so the government's administrative intervention, its "erroneous direction" to pursue non-economic goals, makes poor enterprise management even more inevitable.

Third, since the reform, enterprises have gained certain rights to allocate their retained profits. But if they invest their own money, the assets so created will be government-owned, and so enterprises are reluctant to invest and choose to distribute the retained profit instead. Since none of the original assets belong to enterprises, some have gone so far as to risk the capital, risk their equipment, to increase distribution. Not only are they distributing the retained profit, but they are also distributing enterprise depreciation funds and renovation funds. Such short-term behavior naturally makes enterprise long-term development an impossible dream.

Group Consumption Is Out of Control: Defect Number Three of the Government Ownership System

In recent year, uncontrolled increase in consumption by the groups has become the main cause of inflation. However, most of the increase in group consumption are not funded by government appropriation but by mandatory enterprise apportionment imposed by governments at different levels.

Primarily, governments of all levels share the same strong urge to pursue their own interests. Since they run enterprises, they naturally treat them as their money-tree to profit and satisfy themselves. Enterprises resent this kind of apportionment, but because they are dependent on the government in many ways, they cannot vigorously resist the apportionment. In particular, the job security, promotion, and transfer of enterprise leaders are in the hands of the government officials; this further weakens enterprises' resistance against the apportionment. In this way, huge sums of funds are drained from enterprises, being turned into government-owned public funds to be spent on automobiles, expensive office equipment, food and drinks, travel and tours. Enterprises can moan and groan under their heavy burden, but helplessly, they have become "accomplices" abetting the bloating group consumption.

Inflation Is Getting Worse: Defect Number Four of the Government Ownership System

Inflation, simply speaking, is printing too much money. The government ownership system has created a situation where there is too much futile investments, where group consumption is out of control, and enterprises are distributing all their profits, which inevitably cause society to have an insatiable demand for money. On the other hand, even the banks which supply the money is owned by the government, and therefore, it is natural that there will be an unlimited supply of money. In this way, huge amounts of loan funds are handed out at will, with little hope of being repaid, and yet there is no way to generate equivalent productive capacity, and so the money find its way to the market to give product prices a pounding.

To sum up, the government ownership system is the root cause of many of China's economic problems. If we are not rid of this sickness, China's reform will not be able to make any real progress.

[box] Biographical Note

Zhong Pengrong: Male. Born in May 1955 in Xishui, Hubei Province. Received a Master's Degree in Economics from the Central-South University of Finance and Economics. Presently working in the Research Department of the Central Committee's General Office.

Academic Achievements:

He has conducted special research and has advanced his original views on ownership systems, "Distribution

According to Work," and other basic economic issues as well as on pricing, finance, investment, taxation, foreign trade and other economic topics. He was the first to propose and study the theory of double-track pricing, and later developed that into a multiple-track pricing theory. In the area of finance, he has proposed and studied mechanisms to counter China's inflation. In taxation, he has advanced the theory and model of dual-appreciation tax. His ideas on investments are highly regarded by central government leaders.

Publications: The Inflation Dilemma and Macroeconomic Control in a Socialist Commodity Economy (co-authored the latter book.)

Other Individually Published Papers: He has published more than 80 papers including, "Economic System and the Price Foundation," and "Error in Value Transformation and Ways To Eliminate It."

Delay in Improvement

40060152 Shanghai SHIJIE JINGJI DAobao in Chinese 21 Nov 88 p 12

[Article by Xie Duo 6200 1122: "The Problem and Its Tentative Solution: Rectify Control and Deepen Reform"]

[Text] The underlying cause of currency inflation is the existence of an inflationary impulse in the movement mechanism formed by the existing system, which is still a growth system. Therefore, it is now necessary to check the worsening trend of the climate through such administrative methods as tightening the money market, cutting down on capital construction, and freezing wages. However, a radical solution can be implemented only by unifying understanding, with regard to ideology, and by deepening reform, with regard to the system.

Since the beginning of the year, economic conditions have rhythmically risen and fallen. The inflationary trend has steadily increased. What is the cause of this? Was it avoidable? Could the problem be attributed, in a nutshell, primarily to an erroneous assessment of the situation at the beginning of the year, or to other technical factors? Different responses to these questions would inevitably lead to different choices of methods for resolving the problems.

The Problem: Delay in Improving Major Reform Measures

Some believe that the problem arose due to an overly optimistic assessment of the situation at the beginning of the year, and this is not without truth. However, a deeper cause is the existence of inflationary impulses in the movement mechanism formed by the existing system, which is still a growth system.

The main content of the major policy adjustments since 1987 can be summarized as "three allocations of responsibility and one relaxation [san bao yi fang 0003 0545 0001 2397]"; namely, responsibility for enterprise, finance, and foreign trade has been allocated and the central authorities have actually relaxed their price control authority. The central idea in this is to transfer authority over the distribution of resources to localities and enterprises. One of the elements of reform is to gradually transfer to a lower level resource distribution authority, which is overly concentrated, and viewed from this standpoint, "three allocations of responsibility and one relaxation" is in keeping with the direction of reform. However, under conditions in which such systems as price, tax, and finance have not been thoroughly reformed and there are defects in the specific method of contracting, "three allocations of responsibility and one relaxation" has aggravated a number of inherent but fundamental contradictions in the economy.

The biggest abuse in the existing revenue-sharing system is that it includes a circulation tax which is closely interconnected with output value speed. This has brought two problems: first, local governments, if they are to increase fiscal revenue, must increase speed. Even if an enterprise's profit level is not high, or even if it has a deficit, as long as it can create an output value and turn over circulation tax to the higher authorities, the local government must guarantee it. This is not doubt an important reason that a large number of enterprise with low return are able to survive. Second, it intensifies distortion of the industrial structure. At the time of substitution of tax payments for delivery of profits, considering the situation under the original system, in which price relations were irrational and for a time it was difficult to implement basic price reform, a higher circulation tax rate was imposed on the processing industry and consumer goods industry, in an attempt to replace the price in regulating the industrial structure. However, under a proportionally divided system, such problems as adverse regulation of the industrial structure, duplicative construction, and high-speed low efficiency have already emerged, and not only has revenue sharing not alleviated these problems, it has, on the contrary, increased the seriousness of one of them. And it is these problems which are the underlying cause of currency inflation.

The enterprise contract system and revenue sharing tally with each other. After the two-step substitution of tax payments for delivery of profits, an excessively high proportional income tax and a one-household, one-rate regulatory tax were implemented, thereby producing the phenomenon of "whipping the fast ox." The enterprise contract system adapted to the demands of enterprise reform and strengthened enterprise independence, thereby arousing enthusiasm for enterprise production. However, since the method which was implemented linked the total amount of wages (including bonuses) and profits and taxes turned over to the higher authorities (including circulation taxes, in the case of about 10 percent of enterprises) and intensified the trend toward

increased enterprise staff and workers' income by increasing speed, thereby making it hard to check the inflationary trend of enterprises' investment demand and staff and workers' consumption demand. The current double-track price system has two biases: the first is that the degree of price planning of such downstream products as general processed goods and consumer goods is lower than that of such upstream products as raw materials; the second is that the degree of planning of small and medium-sized enterprises is lower than that of central large enterprises, thereby causing downstream products and small and medium-sized enterprises to have a higher price-bearing capacity and receive more stimulation from prices. And there is a relative surplus of downstream products, reduction of the size of enterprises leads to a lack of large-scale returns, and therefore it is also limited by industrial policy demand. However, the effect of double-track prices and the demands of industrial policy are diametrically opposed. This adverse regulation effect of double-track prices is brought into maximum play under the existing enterprise of contract system. Under the revenue-sharing system, viewed from the standpoint of local government, there is essentially no difference between the circulation tax and the profits tax which enterprises turn over to the higher authorities. Therefore, the greater the enterprise's speed, the better. In order to enable enterprises to increase speed and guarantee delivery to the higher authorities, local governments put pressure on banks to provide loans and extend credit. With regard to the question of speed, localities and enterprises are in harmony with one another.

Due to excess speed and the imbalance of the domestic industrial structure, various levels of government, particularly the central government, are forced to import large volumes of goods and materials in short supply in order to support the excessive speed. Under the conditions of using imports to stabilize exports, allocation of foreign trade responsibility was chosen in order to ensure that foreign exchange turned over by localities would not decline and financial subsidies would not increase. However, continuing currency inflation causes exchange cost to rise constantly, and under conditions in which it is difficult to increase financial subsidies and the amount of foreign exchange turned over to higher authorities cannot be reduced, the only recourse is downward adjustment of the RMB exchange rate, which in turn will also aggravate domestic inflation.

In short, the responsibility allocation system has emphasized growth as a characteristic of China's economy. However, this growth economy which appears after contracting differs from that which existed prior to reform. Under the old system, the operational results of local government and enterprises were not at all directly linked to economic returns; therefore, it was valid to use administrative measures to control growth. Under the present system, however, the growth impulse of localities and enterprises is not formed under pressure from

the central authorities, but rather originates from their own economic returns, thereby making it impossible for us to simply rely on traditional administrative methods to control growth.

A new situation has been proved in the past 2 years: namely, whoever decontrols prices first receives its advantages first; this is the so-called "Guangdong model." However, the commanding elevation of price cannot be seized at random; in addition to "being a little bolder," the key is financial strength. With adequate financial strength, subsidies to the localities' residents can be increased and the local enterprises' base figure for delivery to the higher authorities can be reduced, thereby increasing the localities' price-bearing capacity. In this way, materials and capital, the resources in shortest supply, would not flow out to the extent that resources and capital would be brought in from outside the province, thus promoting the stability of the region's economic development on a higher price level and the stability of its living standard.

A cycle has formed here. The locality in question must develop, and so it must take the lead in decontrolling prices; and in order to decontrol prices, it must increase its financial revenue; and higher financial revenue must be achieved through high growth; while high growth and high prices require putting more currency into circulation; and excessive currency in circulation inevitably leads to pushing prices up, which in turn also spurs the various localities to start a new round of price competition. Therefore, it is necessary at the present time to rely primarily on such administrative measures as tightening the money supply, cutting back on capital construction, and freezing wages to check the trend toward a worsening climate. However, only by unifying understanding, with respect to ideology, and deepening reform, with respect to the system, can a radical solution be achieved. Otherwise, the dead ashes will flare up again at the first gust of wind.

Tentative Solution: Controlling the Climate Requires Deepening Reform

The focus of the task of the next 2 years is to control the climate and rectify order. However, the basic method of controlling the climate should be adjusting and deepening reform. In relations between the state and enterprise, we should continue to perfect the enterprises contract system. The total amount of wages should be linked to labor productivity, rate of cost reduction, and profit index. Since the basic method of resolving the wage problem is to reform the ownership and labor system, beginning next year, we should actively engage in after-tax loan repayment and after-tax contracting following the reduced income tax, and, on this basis, push forward the shareholding system.

In relations between the central authorities and localities, it is necessary to perfect revenue sharing. We must separate the circulation tax, which is greatly affected by

price and has a regulated structure. Considering the rigidity of interest, we should adopt a method of turning over circulation taxes to the higher authorities whereby the taxes turned in by various regions maintain their original retention proportion, and implement allocation of responsibility with respect to other revenue items. This may, on the one hand, prevent financial landslides, and will not result in all of the advantages of price hikes going to the localities, while at the same time it will not result in the further expansion of the role of the price and property tax systems in adverse regulation of the industrial structure.

With respect to the foreign trade system, premised on reform of the planning system, we should reduce the central authorities' proportion of foreign exchange and avoid a policy of maintaining the central authorities' foreign exchange by step-by-step downward adjustment of the RMB exchange rate.

At present, branches of the People's Bank are still set up according to administrative division; we should create conditions for dividing the branches according to economic divisions. Each branch of the People's Bank has administrative authority only over currency policy. Before implementing this reform, we should strengthen the vertical leadership of the People's Bank; we cannot align the branches of the People's Bank with local governments, and should clearly stipulate that the branch directors of the People's Bank must not enter local governmental bodies; we may consider implementing a periodic transfer system for People's Bank branch directors.

At the same time, we should reform the People's Bank's existing profit retention system. The People's Bank should not have a profit motive; the various derivative operational entities should be remolded, and the profits from currency issuance turned over to the central financial authorities. The central bank should gradually transfer the special loan business which it currently handles to various specialized banks or newly established policy financial institutions. It should break down by quarter the People's Bank's relending to various specialized banks, as well as its annual loan plan, make a unified appraisal of the scale and capital of the policy loans in the plan, and prevent the various specialized banks from being left with serious gaps. It should try out scale loans in order to amend the present problem of lack of coordination between capital and scale. Under conditions in which the degree of decontrol of interest is relatively small, it is inadvisable to implement a contract system which uses expansion of loan scale as its main method of profit-making.

The central financial authorities are currently still confronting a fiscal deficit, but the present system of selling various financial bonds to banks has not yet changed its essence of credit inflation and is not at all fundamentally different from the original overdraft method. As to methods of solution, the first is to revise the credit

planning method, achieving a unified balance of bond scale within the credit base; at the same time, it is inadvisable for the People's Bank to offer relending to specialized banks in order to pay for the bonds. The second method is to reduce specialized appropriations by the central financial authorities and make an effort to achieve independent balance among the various levels of public finance. The third method is not to include circulation taxes among the revenue-sharing items, and to shift to having the central authorities and localities share the income increases due to price hikes.

The central government cannot rely too much on a policy of disparate approaches in promoting local economy; still less can it tacitly permit a few regions to infringe on the interests of other regions in developing their own economies. With respect to finance, it must make an effort to work out a principle of equitable tax burdens; with respect to prices, it cannot tacitly permit a few regions to raise prices without authorization; and with respect to currency, it cannot allow the currency of individual regions to be issued in excess of the plan or to exceed the loan scale.

In short, when vigorously arousing the enthusiasm of localities and enterprises, we should pay attention to guiding their efforts toward increasing economic returns and perfecting the industrial structure; when transferring economic authority to lower levels, we should strengthen the central authorities' regulation and control capability; when emphasizing the unbalanced development of various regions, we should pay attention to overcoming the problem of regionally-motivated inflation. In the above areas, we should not only make a general appeal to keep within the bounds of administrative discipline; still more important is achieving these objectives through the adjustment and perfection of the movement mechanism. In this sense, controlling the climate cannot and absolutely does not imply halting reform; rather it should imply deepening reform.

FOREIGN TRADE, INVESTMENT

Country To Tighten Control Over Export Licensing in 1989

40060123b Beijing GUOJI SHANGBAO in Chinese
24 Nov 88 p 1

[Article by Li Hungmei 2621 4767 2734: "China Will Step by Step Increase Licensing Management—Next Year Will Implement the Export Licensing System of 'One Permit Per Shipment'"]

Beginning in 1989, the Ministry of Foreign Economic Relations and Trade will effect a "one permit per shipment" system for export licensing, to provide some regulation of products covered by export licensing control and to further strengthen management of the process. This is the impression gained by this reporter at the Sixth All China Export Management Workshop just concluded on November 18.

In recent years, China has made great progress in export licensing. A preliminary and comprehensive licensing management system dealing with planning, quotas, customs, and foreign exchange has been set up. Depending on domestic and foreign market conditions, it has been regulating licensed product listings, approving license-issuing units, promoting computerized permit issuance, etc., to gradually systemize the management operation along more scientific lines, with certain results. In 1987, a total of 217 commodity items were licensed for export, and a total of 145,300 permits were issued nationwide, for commodities worth \$23.15 billion, which comprised 66.72 percent of the total export quota.

This use of export licensing has effectively controlled the export of large amounts of resource products essential to the people's livelihood and certain items that are scarce and quota restricted for the international market. Through tightened control in issuing the necessary permits, and a firm spirit of cooperation between export partners, the orderly processing of goods licensed for export is possible, and the export market is basically stabilized. Product volume is increased, a move which translates into an increase in foreign exchange. By tightening licensing control of 30 representative commodities such as two types of yarn, two types of cloth fabric, cotton, silk, etc., their sales value and export volume both went up, and the increase in foreign exchange for 1987 was \$1,324 billion over that for 1986. At the same time, better management of export licensing itself also cleared up the export of certain particularly confusing and controversial products.

According to the responsible spokesman from the Bureau of Trade Management of the Ministry of Foreign Economic Relations and Trade, adjustment and care of the foreign trade environment, and the need to promote order in the export trade will require the management of export licensing next year to be further strengthened. Some of the products governed by export licensing need partial regulation, some important commodities earmarked for export will be routed through proper licensing offices, and some commodities under strict state control will be channelled for export licensing by the Ministry of Foreign Economic Relations and Trade through its Office of the Special Representative located port side.

The person assuming this responsibility must require trade management personnel to seriously evaluate the scope of the exporting enterprise at the same time a permit for one shipment of goods is issued. The license is issued in strict accordance with plan, quota, and a fair market appraisal, in a proper, open and honest manner.

Gu Yongjiang [4474 3057 3068], assistant to the Minister of Economic Relations and Trade spoke at the meeting. He said the key to sustained growth in foreign trade next year is efficient management of export trade practices. All measures taken must strengthen export trade management, and rules and guidelines for China's

export trade operation to become systemized, orderly, lawful, and open must be adhered to strictly. He hoped that all those engaged in trade management will be faultless in their personal conduct and policies, accessible to law-abiding enterprises, and strong enough to resist and expose all shady dealings.

TRANSPORTATION

Beijing Railway Bureau's Transportation of Coal
40060159b Beijing RENMIN RIBAO in Chinese
22 Nov 88 p 1

[Article by Feng Yi 7458 1150, reporter for the Beijing TIEDAOLAO: "The Beijing Railway Bureau Has Paid Attention to the Overall Situation, Tapped Potentials, Transported More State-Allocated Coal Faster, and Over-Fulfilled Plans for the First 10 Months of 1988 by Over 1 Million Tons"]

[Text] The Beijing Railway Bureau, which transports one-third of China's coal, has consistently given first priority to the national interests, paid attention to the overall situation, tapped potentials, and gone all out to do a good job of transporting state-allocated coal. In the first 10 months of 1988, it transported over 142 million tons of state-allocated coal, or over 1.02 million tons more than was planned.

Coal, 90 percent of which is state-allocated, accounts for 55.7 percent of the Beijing Railway Bureau's annual volume of rail freight. The success of coal transport directly affects the power supply and production of the four major power networks of Tianjin-Beijing-Tanggu, East China, Central China, and North China, and the five major steelmills of Angang, Bengang, Wugang, Baogang, and Shougang. Even though transporting state-allocated coal earns less money than transporting second grade coal and other goods, the bureau sacrificed its interests for the overall interests, made transport of state-allocated coal its "most important job," and fulfilled overall plans. It took the following three steps to solve the key problem of not having enough empty cars to transport coal: 1. It "sent eastern cars west" by transferring all open freight cars that were under the jurisdiction of its Beijing and Tianjin branches to Shanxi to be loaded with coal. In 1988, it has marshalled 14,000 empty C-61 and C-62 cars into 250 through coal trains; 2. It "emphasized unloading and ensured the lineup." The bureau directed each of its branches to unload a certain number of cars a day, line up the empty cars, and send them all back to Shanxi to be loaded with coal, thus ensuring enough cars; 3. It loaded coal on miscellaneous cars in place of open freight cars. The whole bureau used over 570,000 miscellaneous cars to transport coal in the first 10 months of 1988.

In order to ensure fulfillment of its coal transport task, the bureau also adopted a "preferred investment policy," firmly reducing its nonproduction investment and using its limited funds to transform, perfect, and renew the equipment on its coal transport lines. In 1988, it invested 120

million yuan in the five major coal transport lines of Feng [0023]-Sha [3097]-Datong, Beijing-Yuanping, Shijiazhuang-Taiyuan, Taiyuan-Jiaozuo, and Nan [0589]-Tong [0681]-Pu [5543], reducing breakdowns and improving transport returns. The layover time for coal transport trains at Zhangjiakou, a major stop on the Feng-Sha-Datong line, has now been reduced from the previous 26 minutes per train to about 12 minutes per train.

In the midst of reform of economic conditions and the economic order, the Beijing Railway Bureau has also recently "decided to further improve management of its examination and approval system for train needs that are beyond plans." It will strictly observe examination and approval jurisdiction, publish lists of approved plans, allow cargo owners to supervise, and effectively ensure the regular transport of state-allocated coal.

Railway Department Increases Grain Transportation

OW0612000988 Beijing Domestic Service in Chinese
1540 GMT 30 Nov 88

[Local news broadcast service by reporter Yang Like]

[Text] Beijing, 30 Nov (XINHUA)—In compliance with the instruction of the State Council, the Railway Department, coordinating with other related departments, jointly took measures to do a good job in transporting grain. In November, the railway system transported an average of 2,255 railcars of grain daily, which was 175 railcars more per day than in October.

A responsible person of the Ministry of Railways told this reporter that on receipt of the instruction of the State Council on stressing the transportation of grain, the Ministry of Railways ordered railway bureaus to place top priority on transporting grain and give the "green light" to trains carrying grain along all routes.

AGRICULTURE

Reservoirs Completed, Near Completion in 1987
40060201 Beijing ZHONGGUO SHUILI [CHINA
WATER CONSERVANCY] in Chinese
No 11, 15 Nov 88 p 38

[Excerpt]

Reservoir capacity: 100 million cubic meters
Irrigation: 10,000 mu

Area	Number of Reservoirs	Total Capacity	Effective Irrigated Area
Total	82,870	4475.44	23852.84
Beijing	83	73.80	345.31
Tianjin	89	24.92	104.23
Hebei	1,167	142.72	1213.06
Shanxi	784	39.60	569.13
Inner Mongolia	508	59.28	265.17

Reservoir capacity: 100 million cubic meters
Irrigation: 10,000 mu

Area	Number of Reservoirs	Total Capacity	Effective Irrigated Area
Liaoning	979	300.57	687.85
Jilin	1,302	298.31	309.39
Heilongjiang	480	61.28	184.17
Shanghai	0	0.00	0.00
Jiangsu	1,140	190.15	1762.96
Zhejiang	3,511	332.15	1150.30
Anhui	4,365	179.91	1365.27
Fujian	2,585	66.58	416.27
Jiangxi	9,412	229.35	1094.06
Shandong	5,495	191.38	1124.96
Henan	2,467	493.65	1056.89
Hubei	6,353	483.72	2229.66
Hunan	12,727	210.91	2444.49
Guangdong	7,281	443.19	1621.67
Guangxi	4,585	215.22	1036.41
Sichuan	9,015	116.76	1405.40
Guizhou	1,846	50.54	245.27

Reservoir capacity: 100 million cubic meters
Irrigation: 10,000 mu

Area	Number of Reservoirs	Total Capacity	Effective Irrigated Area
Yunnan	4,184	66.00	596.20
Tibet	0	0.00	0.00
Shaanxi	1,415	44.86	447.61
Gansu	291	85.30	400.92
Qinghai	133	2.01	53.26
Ningxia	194	17.51	312.62
Xinjiang	479	55.79	1410.31

National Grain Procurement

40060217a Beijing JINGJI RIBAO in Chinese
9 Jan 89 p 1

[Excerpt] [Passage omitted] As of 31 December 1988, China had put 48,357,000 tons of grain in storage, fulfilling 97 percent of the national plan. [passage omitted]

Reforms 'Cannot Dodge' Political Problems

40050094 Hong Kong CHENG MING

[CONTENDING] in Chinese No 133, Nov 88 pp 29-33

[Article by Ouyang Minglang 2962 7122 2494 2597:
"Reforms Cannot Dodge the Political Problems—Criticism on 'Cultural Reflection'"]

[Text] Mainland China's "Cultural Reflection" Indeed Enlightened the Cultural Thinking of Intellectuals and Youths, But at the Same Time It Took Readers Far From the Actual Political Society Which Resulted in Culture Getting Too Much Heat and Politics Being Left Out in the Cold. The Political Problems Raised in 1979 Are Now Going To Repeat Themselves.

History Continues to Repeat Itself

In 1979 as the Chinese Communists engaged in theoretical construction, a famous article appeared called "Political Problems Can Be Discussed." This article, written by Guo Luoji [6753 5012 1015], appeared in the PEOPLE'S DAILY on 14 November, 1979. But after the 1981 "anti-freedom" movement, political problems were pigeonholed by the Communists and no public discussion of them was permitted. We wait until 30 August, 1986, when the political environment comes to be known as "relaxed" and we find the PEOPLE'S DAILY publishing an article by a staff commentator entitled "Political Problems Can Be Discussed." The subject and contents of this article were basically the same as those in the 1979 article. In the beginning of this year, as the people were casting aside the anti-freedom movement and clamoring for political reform, the Communists came out of their 13th Party Congress with a desire to demonstrate their enlightenment and so, an article with a similar subject appeared in the party newspaper. It's a pity that the flames of inflation were crackling at their heels and not until then could political problems be discussed.

This glimpse in miniature of Chinese Communist policies even found embodiment in the person of one man, essayist Lao Lie [5071 3525], who wrote an article early in 1980 called "Do You Dare? What Are You Afraid Of?" After seven years of being afraid and after the Shekou Disturbance early this year, his feelings resurged and he wrote an article for the 27 May issue of the NANFANG ZHOUMO [NANFANG WEEKEND], entitled "Do You Dare? What Are You Afraid Of?"

What eventual effect do these recurring bouts of "cultural toying" have on reform? What effect do they have on China?

Intellectuals and the Chinese Communists have all along been trouble-makers for each other and have never striven to better the lot of the other. Last year, after carrying out the massive "anti-freedom" movement and punishing several bunches of intellectuals, the Chinese Communists stressed reforms which did nothing to

advance production but rather led to this year's economic crisis with inflation. For most of the year the crisis has become more severe. At this critical juncture the Communists suddenly thought of the intellectuals. A staff article entitled "The Historical Responsibility of the Economist" published in the Beijing ECONOMICS WEEKLY pointed out that "at this complex, delicate moment, the intellectual absolutely must exhibit his knowledge to guide the people forward."

The "Cultural Fever" Went Overboard

So, in their seven preceding years of "silence" what did the intellectuals "exhibit?" Did they "guide" the people? An answer to this question would also be "complex and delicate."

Because the Chinese Communists did not permit discussion of political questions, China's intellectuals have been practicing "cultural reflection" in recent years.

China's "cultural reflection" actually began with the "Scar Literature" of 1978. In about 1985 "cultural reflection" began to intensify. This showed itself in a "search for roots" in literature and a "consideration of the antiquity" by academia. This all led to the "cultural fever" of recent years. And the "cultural reflection" movement has been pushed to its apex by the recent showing of the cultural television movie "River Elegy."

From the "Move Toward the Future" series of books published fairly early in Beijing to the "Cultured" series published recently in Shanghai, we can see China's publishers putting out loads of "cultural reflection" works in areas like literature, history and philosophy over past years. This wave of strongly academic publications has indeed enlightened the cultural thinking of intellectuals and youths in China.

However, these publications have one common feature—they lead the readers far away from the actual political questions and instead take them back to ancient society or up into ivory towers. This results in culture getting too much heat, political problems being left out in the cold, and zero progress for society as a whole. Because of this, economic reform provides no correct theory on guidance. The Communist leaders are allowed to provide guidance though they are not qualified. Economic reforms at the hands of the Communist leaders has led to a dead end. Because of this, the political questions of 1979 are now about to repeat themselves....

The Achievements and Confines of "Cultural Reflection"

The Chinese Communists have said that they want to "thoroughly negate the Cultural Revolution." Yet, they won't permit a thorough criticism of Mao Zedong. The Chinese Communists have said that misjudged cases shall be thoroughly redressed. Yet, when they attempt it, the result is an insignificant sloppy mess. (Look at how

they have redressed the sensational Hu Fong case. However, the Communists unexpectedly announced recently that they will "further redress" the sensational Hu case. This may still be far from a thorough redress and we don't see any "furthering" of work to criticize Mao.) And now a report by XINHUA SHE on 9 October tells us that scholars of the Beijing Economic Reform Theoretical Research Committee feel that the roots of China's inflation lie in the economy getting too much attention. But why is the economy getting too much attention? This is of course a question for politicians and the scholars feel it is not a subject they should approach.

It is precisely because of this special "condition of the nation" that China's intellectuals find it prudent to steer around the dangerous shoals of actual political questions while carrying out "cultural reflection" and cautiously make their way up the river of the ancients.

Originally "cultural reflection" allowed only the intellectuals to enjoy the intoxication of self-satisfaction. Now "cultural reflection" has been taken to society as a whole in the form of the television drama "River Elegy." It has created quite a stir. But, like a Shanghai professor said: "River Elegy" is only one of those "epics of eternal hatred where one mourns the decline of ancient Chinese culture" and is not a "March of the Volunteers."

Of course, we must admit that some of the works written during the "cultural reflection" go quite deep and explain such things as why China's feudal society lasted so long and why modern China has long been backward. However, they have no way of explaining why Communist Party-ruled "Socialist China," known as an advanced social system, lingers under a cloud of darkness heavier than that during the times of the Qing Dynasty Manchu emperors. They can't explain why under the socialist system, whether the times are those of Mao Zedong or Deng Xiaoping, political movements arise one after another. They can't tell us why the Chinese people who "since ancient times have been valiant and industrious" have become complete idlers mentally and physically under Communist leadership. They have no way to tell us why the traditionally patriotic Chinese have become more and more "unpatriotic," setting off waves of emigration due to fear of the Communists and a desire to part with them and avoid them. What's more, these works have no way to explain how Taiwan society got a million miles ahead of mainland China society, though the two share a common cultural background. Can we explain all of this with "Traditional Chinese Culture," "Deep Seated Bad Habits of the Chinese" or "The Ultra-Stable Chinese Social Structure?"!

Outflanking Tactics of the Intellectuals?

Anyone who comes into contact with a mainland Chinese scholar abroad will discover that mainland scholars talk with confidence and composure on international

issues or ancient subjects and at times they are downright incisive and penetrating. But when it comes around to discussing China's actual problems, political problems in particular, they clam up and will only make general, perfunctory remarks. (Of course, I'm not talking about that handful of scholars like Fang Lizhi 2455 0536 0037) This isn't due to an inherent lack of interest in politics in the Chinese intellectual, but stems from decades of Communist-induced fear of politics which has severely dampened the moral courage of China's scholars, leaving the contemporary scholars unwilling to face reality. This is known as "a lingering fear" on the mainland.

"China politics" has become a hot potato no one is willing to catch. Education, news publication, academic theory, even economics—whenever these issues run into politics, they strike a reef and are grounded for good. Thus, people have become accustomed to carefully steering around politics. But, if they do this, no problem will ever see genuine results. The Shanghai WORLD ECONOMIC HERALD which has come to be known as one that speaks out, sounded two alarm bells for the Chinese people at the beginning of the year. One alarm is that, of the 128 nations in the world, China's per-person average of the GNP ranked consistently around the bottom 20 this year. The other alarm was sounded to show that, of 124 nations and regions, China's social development level ranked 48th from the bottom. This has led to discussion throughout the country in recent months on "whether China will be eliminated from the earth."

However, in sounding its second alarm bell, the WORLD ECONOMIC HERALD deliberately failed to mention in its report what effect China's political problems have had on such intimately related items as "political participation," "national defense," and "the position of women." The nation-wide discussions that followed soon afterwards also treated "political questions" as secrets to be closely guarded. This deliberate evasion of the "political questions" only gives emphasis to economic construction and cultural construction; how is one to search for the correct route that will develop and advance Chinese society as a whole?

Living in an atmosphere of Communist-induced political fear, China's intellectuals have lost the courage to face reality and have been forced to travel the route of "cultural reflection" which is an evasion of actual politics and content themselves with flogging their forefathers from a safe distance. Just as Professor Fang Lizhi said in Hong Kong early in September, people want to change the existing situation but they're not willing to come out with direct criticism. So, they use methods of evasion whereby criticism and advice on current ills take the form of cultural criticism.

However, the ancient Chinese not only left behind shadows of their culture, but they created a marvelous civilization and a thriving society. Why should they be subjected, for no reason, to the same discrimination and censure as modern intellectuals? Why are middle-aged

and old Chinese enthusiastically "reflecting on" and "criticizing" the ancient culture? Why are they not examining their own conscience? In the final analysis, what have we created for China? What have we left behind for posterity? Why the easy conscience in the face of historical regression? Why are people not mustering up their own courage?

The Chinese Communists Have Enlisted the Scholars to Act as Their Lackies and Add Fuel to the Flames

"Cultural reflection" is of no assistance to the actual problems facing China and moreover, is an ineffective solution to the problem of how to criticize the Communist Party. To make matters worse, it exonerates the Communists and their mismanagement of China. The problems don't stem from Mao Zedong's mistakes, they don't stem from Communist Party mistakes and they don't stem from the mistakes of any of our generation. The mistakes all lie with traditional Chinese culture! How neat and tidy! The ancients have already taken the blame, so there is no need to investigate any living persons or organizations. Thus, there was no real arch-criminal in the Cultural Revolution. Thirty million party members and one billion people are victimized and there is no mischief-maker behind it all.

Precisely for the reason that the "cultural reflection" allows the Communists to wash any blame off themselves, the hack writers under Communist control never seem to be tired of their work. They take every opportunity to add fuel to the flames of "cultural reflection" so as to conceal their own political corruption and offenses.

After the tide was suppressed at Beijing University in early June of this year, a bogus "large character poster" was tacked up on the Beijing University campus 10 June which was entitled "Initial Reflections on the Deep Cultural Contradictions at Beijing University." The poster condemned the Beijing University students and the U.S. Voice of America radio station that participated in the demonstration. Also around June the WORLD ECONOMIC HERALD in Shanghai published an "eighth anniversary special series" in which it went all out to peddle this "cultural poison." An example is the special contribution made by Zheng Bijian [6774 1801 1017] who was involved in the drafting work of the political reports of the 12th and 13th Party Congresses. He wrote on "Science and Culture—The Key to Rejuvenation of the Chinese People." He openly broke with the nation-building spirit the Chinese people have shown in advancing wave after wave toward "democracy and science" since the "May Fourth" Movement. Former chief editor of the PEOPLE'S DAILY Hu Jiwei [5170 4921 0251] and former Wen Yuankai [3306 0337 0418] who painstakingly covered his own rear during last year's "anti-capitalism" movement both wrote special contributions to the series in which they went to great lengths in discussing "Cultural Development Strategy" and "Deep Reflections on Traditional Chinese Culture." But such true-blue Communist scientists as Qian Zuesen

[6929 1331 2773] and Qian Sanqiang [6929 0005 1730] are even more used to isolating the "May Fourth" spirit as they continue to preach "Science Will Save the Nation," and "Science Will Enrich the Nation." (We don't hear them telling us where the nation has been strengthened and enriched in the last 40 years.) What we don't see is people who are willing (or who dare) to stand up and openly call for reforms of the political system to bring democracy and freedom to the people.

Do the Problems Lie With Culture or With the Political System?

Are the poverty and backwardness of mainland China a cultural problem or a problem with the political system? Could it be that the public is being hoodwinked by the Chinese Communist literati?

The Japanese reporter Akira Fujino who was stationed on the mainland for a year spent two weeks visiting Taiwan to do stories this summer and the contrast between mainland China and Taiwan really shook him. In seeking to understand the qualitative differences between Chinese on the mainland and on Taiwan he concluded that "it comes down to a question of courtesy."

He said that government officials one meets on Taiwan and even the general public all treat people with courtesy. One will often hear the words "thank you" or "excuse me." But the opposite holds true on the mainland where whether one is in a shop or at the train station one will often be met with an "attitude of hostility."

How is it that two Chinese societies that share a common cultural tradition can put on two different faces? Akira Fujino feels that this is primarily due to the different social systems.

Singapore, with a similar cultural background, launched a courtesy movement and saw considerable success. But the Chinese Communists, despite launching "courtesy movement month" or "the three particulars, the four beauties, and the five ardent loves," still find their services and operations work qualitatively inferior. In the area of ethnics, we find one Chinese society carrying on the etiquette, integrity and honor taught by the ancients and, combining modern education, blossoming into a thriving culture; the other society shamelessly carries forward the dark night of savagery and cruelty and cannot be reasoned with. Why is this so? I wonder if we still need to look for the answer to this in "culture"? One society is modern and founded on private ownership; the other is a modern-day imperial dynasty founded on ownership by the whole people. Is this not the obvious answer to our question?

Why Must Culture Take the Flak for Politics?

Last year I wrote an article in which I introduced to overseas readers the new views on "cultural reflection" of Li Zhengtian [2621 2973 1131], who was then one of the current champions of democracy known as "Li Yizhe" from Guangzhou. He wrote an officially displeasing article entitled "The Minds of the People Need a Renewal" in which he explained that the tragedy of the Cultural Revolution cannot be blamed on Mao Zedong and Communist totalitarian rule but rather the Chinese people deserve heavy blame. This article met with reproach from the overseas scholar Mr Wen Chuanshan [2429 5307 1472]. Mr Wen criticized the cultural views of Li Zhengtian and those writers who make out their cases solely on the strength of their literary talent. And he urged mainland scholars to "not go nitpicking on cultural traditions when they aren't even the issue."

Indeed, many mainland scholars in recent years have wittingly or unwittingly gone to nitpicky little ghosthunts in their "cultural reflection" studies and have managed to overstate their cases and become infatuated with them. For example, they feel that the fanatic following to Mao Zedong had during the Cultural Revolution came about because of the cultural mind of the Chinese. So, is this to say that the fanatic support the Germans gave Hitler, the fanatic support the Russians gave Lenin after the October Revolution and later gave Stalin and the fanatic support the Iranians have given to Khomeini in recent years are all due to the "cultural mind of the Chinese?" The Chinese Communists have indiscriminately employed the "Stalinist model" over the decades in subjecting the Chinese people to dictatorship. What does this have to do with "Chinese cultural traditions and the Chinese mind"? It is patently obvious that we should investigate the totalitarian rulers and their political crimes. Do we really need to pull in culture to take the rap? If culture is to blame, why did we see public trials after World War II for Mussolini and Hideki Tojo?

Actually, the Chinese Communists have taken the Chinese economy to "the verge of collapse" (a Communist phrase). This has nothing to do with traditional Chinese culture. We could even say that this has resulted from a decline and death in the splendid cultural traditions of China. The Communists have introduced Marxist-Leninist ideology and Soviet political models, and they have pushed aside the traditional culture of China, especially when they went on their "destroy the four olds" and their "anti-feudalism, anti-capitalism and anti-revisionism" campaigns during the Cultural Revolution. This has produced a fault-line in Chinese culture and it is precisely this annihilation of historical culture that has brought on China's tragedy.

Traditional Chinese culture is not to blame! The fault lies with Communist totalitarian rule that has brought on a nihilistic view of historical culture.

Chinese Communist Reforms Are Already Showing That They Are Theoretical Routes to Poverty

Deng Xiaoping said: "Chinese Communism is hopeless without reforms. Without reforms, China has no way out." He spoke correctly. However, under the "Four Persistencies" the results have been tantamount to no reform.

First, in carrying out their reforms, the Chinese Communists have no way to pull it all together. In "upholding party leadership" the masses are not going to view the reform as a matter that deals with them (because there is no democracy). These are not conscious reforms but rather they are force-fed Communist reforms. Thus, there will never be a spirit of devotion to the reforms.

The way Mao Zedong and the Communist leaders have traditionally explained "party leadership," "leading cadres," regardless of their position, act as the jack-of-all-trades for the people and exist as public servants. But, are there any examples in the world of masters (the people) who have not asked for their freedom and yet who consent and "persist" in acting as public servants? Since this is ridiculous, is it really possible for the Communist call to uphold "party leadership" and one-party dictatorship to ever arouse the enthusiasm of the masses (the masters) and induce them to join their hearts and minds with the party in carrying out reforms? Obviously the answer is no.

Second, the reforms haven't the correct theoretical guidance. In the reform to "uphold socialism," it is impossible for the dignity and value of the individual to be respected and the interests of the masses to be looked after.

August 8 of this year the WORLD ECONOMIC HERALD published an article entitled "The Three Big Cultural Obstacles Facing Reforms." The first obstacle was an admission that, "to a certain significance, reforms still seem to lack a clear value goal. That is to say, in the final analysis, it is not clear what the reforms are trying to accomplish." The article revealed the following explanations for the reforms: "The reforms are geared toward carrying out transformation of the operating mechanisms in the economy," "...the reforms are trying to carry out the Four Modernizations and develop China," "...the reforms are to improve the socialist system," and "the reforms are for improving the productive forces." No one suggested that the reforms are designed to increase the political power and the position of the people or improve the people's lives. From this we can see that Communist reforms run counter to human nature and are reforms for the sake of reform.

Chinese Communist reforms are designed to "uphold socialism" and carry out socialism. Even Deng Xiaoping understands that "poverty and backwardness are not socialism." The people can't be fooled. Thus, they come out with "the initial stage of socialism" for no reason and

it makes the Chinese Communists look like they are grabbing for straws to save their lives. Consequently, these periodic movements for development such as study of economic theory for the initial stage of socialism, study of agricultural policy for the initial stage of socialism, study of cultural education for the initial stage of socialism, study of the cultural spirit for the initial stage of socialism and even study of the party mood for the initial stage of socialism are no different from the "supreme command" mood that pervaded during the Cultural Revolution.

Thus, in the final analysis, socialism is nothing but an illusion. Not only did the masses lose interest in socialism early on, but party theoreticians have recently come to call it into question. On 23 September an article entitled "One Point Worth Noting When Studying Socialism" appeared in the "Academic Field" section of the WORKER'S DAILY. The article acknowledged: "What is socialism? A clear answer to this question would have as its essential prerequisite the creation of a new system of socialist theory. Our answer to this question is vague and confused. By starting off with a muddy concept of 'socialism' and then going on to discuss concrete problems that concern socialism we are only going to bring on more theoretical vagueness and greater confusion." People on the mainland caustically remark: "Forty years of toil, and overnight we've returned to the pre-Liberation days."

Faced with these difficulties, the Communists were forced to launch the "renewed understanding of capitalism and socialism" inquiry movement. But, the more the people renew their understanding, the more they love modern capitalism and hate modern socialism. The more they feel that the Communists have no reason to want to "uphold socialism," the more they feel that China needs to spend more time boning up on capitalism. The Communists are not going to find a miraculous cure for the ills of their "Four Persistencies" reforms.

On the one hand, socialism is a muddy political concept and on the other hand, the people resent socialism (because it has been disastrous for China). Under these circumstances, the Communists obstinately demand that one billion people continue to "uphold socialism." This, like the Cultural Revolution, is undeniably a painfully disastrous move for China.

Political Questions Cannot Be Evaded

We cannot deny that the Communists are sincere in wanting to improve the Chinese economy. But, Communist ideals are limited by the Communist political system and can never be realized. The real core of abuse in the Chinese political system does not lie with ownership by the whole people but rather with totalitarian government by man. A society governed by man heaps reverence upon the bigwigs and tramples on the wide masses. During the Cultural Revolution, Mao Zedong, the

"helmsman and guide to the revolution," was worshipped in a way that would have drawn envy from an emperor or founder of a religion. He brought disaster to China. And today Deng Xiaoping is supported by the Communists as the "master architect" of reforms. Forty million party members entrust the reform of China to this one old guy alone and in drawing up the blueprint for the reform of China he is "making it up as he goes along." And his reforms are thoroughly riddled with holes and mistakes. What Mao and Deng have in common is that they overestimate themselves and don't trust the wisdom of the broad masses.

The Chinese Communists really envy the Meiji Restoration of Japan, the Russian reforms of 1861 and the abrupt rise of Japan after the World War II. But what they envy even more is the economic miracle of the "Four Little Dragons." What the Communists don't understand is that none of these miracles were drawn up by one person but rather were founded on systems of private ownership which include the wisdom and efforts of the whole people and respect for the value and dignity of man. None of these qualities are to be found in a country governed by the Communist Party. For this reason, until now we have not seen any of these miracles appear in a country governed by the Communist Party and the ownership by the whole people system. And we won't see them appear later.

By reading the ancient texts and the classical novels with the gist of the chapters set out in couplets, we can learn that throughout the passage of the numerous ancient dynasties the Chinese people enjoyed considerable personal freedom. From under Communist dictatorship of the proletariat, personal freedom has fallen behind that enjoyed in ancient times. In slave societies, the person of the slave is but an appendage of the master. In feudal societies, the person of the farmer is tied to the land. Only by revolting and breaking from the land can relative freedom be won.

Under Communist dictatorship, the Bao-Jia system and the laws punishing those related to or friendly with a criminal which come from the darkest hour in the feudal imperial dynasties are retained and the household registry system rapidly divides the population into two classes—farmers and non-farmers. This widens the gap between the city and the countryside in an anti-Marxist way. The people are not only tied to the public servants (the cadres), but also are tied to the land, the household registry, the grain ration and the home, etc. The various rights granted to the citizen by the State Constitution are all restricted by this bondage of the person, and so the Constitution becomes an empty shell. The famous mainland scholar Li Zhengtian who has so ardently engaged in "cultural reflection" has asked permission to go abroad to examine things on numerous occasions and has each time been turned down. I wonder if this is a cultural problem too?

Government by man has led to totalitarianism which rejects democracy and rule by law. Ownership by the whole people has led to the communal pot and inert mechanisms. This is the combined result of feudalism and socialism—the two great corruptions in Chinese politics. These two great corruptions have long been linked, affect each other and are inseparable. They are the key to the poverty, backwardness and darkness that has plagued China over the last 40 years. The primary obstacles to the recent reforms are also rooted in feudalism and socialism. If these two cancerous cells are not simultaneously rooted out for good and China merely relies on technological modifications to carry forward the reforms, the reforms are hopeless.

During the recent “cultural reflection” movement, criticism of modern feudalism (rule by man) has been superficial and criticism of socialism (ownership by the whole people) has barely scratched the surface.

The Responsibility of the Intellectuals

Because of the longstanding rule of the Communists by political terror, mainland Chinese intellectuals in their trembling have lost their independent dignity and many have been reduced to acting as the theoretical slaves and vassals of the political bigshots. Even slightly independent thinking writers have had to sink down into learning the art of compromise with the Communists. This is particularly evident in the middle-aged writers. Their masterpiece is “cultural reflection” which steers clear of actual politics.

These proponents of “cultural reflection” feel that China should carry out a new “May Fourth” Movement, but everyone wants to fancy themselves a Hu Shih and no one wants to be Chen Duxiu, Li Dazhao or Lu Xun. Within their ranks there are the so-called “Big Four Warrior Attendants,” but the majority are weak-kneed warriors. After being chosen for warriorhood and being given the attendant fame and position, they have become worldly wise and play it safe just like those old and decrepit scholar-celebrities who made their names in the 40's and 50's and respectfully wait for the Communists to redress their cases and confer nobility upon them. Just as overseas scholar Chen Yungen [7115 7189 2704] has criticized them, many of their fellow scholars were killed in the Cultural Revolution, but these scholars didn't take a hard look at the Cultural Revolution in its fading moments. Instead, they sought far and wide for what was near at hand. They didn't get even with Mao Zedong or Stalin. Instead, they buried themselves in outdated writings and tried to get even with Zhu Yuanzhang, KangXi, YongZheng, QianLong and even Confucius. With their insight into the past and the future these scholars took a profound look at the underlying structure of Chinese culture but failed to use their naked eye to see Communist Party tyranny.

Indeed, Chinese intellectuals are amazingly clever. However, this cleverness is not good for China or the Communist Party. It's only good for keeping their tongues in cheek as the Communists wreck the nation.

The ancients had a saying: “As scholars change, so do all things under heaven.” At the most critical moment of the anti-capitalism movement last year, Fang Lizhi and Hu Ping [5170 1627] stood up, so did Wang Ruowang [3769 5387 2598], Liu Binyan [0491 6333 7159], Liu Zaifu [0491 0375 1788], Wu Zuguang [0702 4371 0342] and Bei Dao [0554 1497]....

The more the Communists pushed anti-capitalism, the more then caused the intellectuals to openly break away from them. From the anti-capitalism movement of last year we can see that when overseas intellectuals (including the students studying abroad) and public opinion give their support, it's sufficient support for the intellectuals at home. Now the Communists have not only lost control over the intellectuals, but they're also losing control over politics. Chinese intellectuals should regain their lost independence and dignity and cast off the Communist shadow of fear, stubbornly carry themselves as if they have a spine, use the present opportunity where the Communists have lost control to actively fight for democracy and demand justice and, force the Communists to carry out political reforms.

Chinese economic reforms have now been going on for ten years. As for political reform, people have heard something is coming down but they don't see anything come out of it. Like now, economic reform is a full-blown crisis and that is because the political system has not been reformed. Construction at the upper levels has not been hooked up with the foundation of the economy. An internationalized, free economy is an incompatible with totalitarian politics as fire is with water. If China's intellectuals don't seize the opportunity, this will only validate what was said at the beginning of this article—the cry for political reform will come around every seven or eight years like Mao Zedong estimated for a cultural revolution and this will continually repeat itself.

Commentary on Policy To Improve Intellectuals' Living Standard

40050126 Beijing GUANGJING RIBAO in Chinese
13 Nov 88 p 1

[Article in Weekly Commentary column by Lu Shihai 7627 1102 3189: “The Historic Posture of a Policy of Leniency”]

[Text] Nowadays, when people talk about raising the living standard of the intellectuals and rectifying the inverse pay relations between mental work and physical labor, the focus of the conversation often is on the benevolent policy and the introduction of the competitive mechanisms. But what role has the benevolent policy played in the history of China's restructuring of the economic system, particularly, in the reform of the [income] distribution system? Is the policy transitional, or is it a permanent measure? Can this benevolent policy solve the social problem of low wages for the intellectuals? These questions require clear understanding and

objective evaluation before we can come up with an overall concept and framework for improving the living standard of the intellectuals and smoothing the income relations between mental work and physical labor and give impetus to this reform in an orderly, step by step manner.

Making the intellectuals' work and income distribution more competitive is something people have learned from the development of the commodity economy. In the past, people have always thought that state funds were the only source of funds for improving the people's living standard. But, with the development of the commodity economy, things have changed. Hundreds of millions of peasants have escaped poverty, township enterprises have flourished, the economies of the SEZs have grown in leaps and bounds, and the income level of the individual households have surged—these are not because of the state's money, but because of the state's policy, because the state has decided to let the people prosper. This has provided us with the new idea on how to improve the intellectuals' living standard. It is with this background that the state has begun to allow the intellectuals collectively to find ways to earn more money and offer services for which they will be paid and so on to improve their living standard.

Under the situation where enterprises are beginning to let market mechanisms regulate their income distribution, if the intellectuals bring in the market mechanisms, the whole society's income distribution will gradually be put under one set of regulatory mechanisms, and this will solve the ever-growing problem of inverse wage relationship between intellectual and physical work resulting from having two of sets distribution mechanisms (*that is, enterprise income is regulated by market distribution mechanisms and the intellectuals are regulated by administrative allocation mechanisms*), so that gradually the entire labor force will compete in the same market, their contributions will be evaluated by the same market, and their income will be determined and regulated by the same market mechanisms. In this way, more work which contribute more to society will command more pay, and as a result of market competition, there will be more equitable wage difference between complex labor and simple labor and greater income disparity as the complexity of work increases. This no doubt reflects better the the socialist principle of distribution according to work, and more work means more money. Furthermore, this will also invigorate the scientific and technological, educational, and public health units, and encourage them to turn to society and to the market and serve the economy, and in its own way, this will promote the reform of the scientific and technological system and the educational system and expedite the development of the socialist commodity economy and society's productive force. This method—circumvents the state's financial limitations. Under China's present tight financial situation where it is difficult to smooth out the income relationship between mental and physical labor by relying solely on the state's funds, this method no doubt is

one way to improve the living standard of the intellectuals.

But we must also see clearly that this kind of benevolent policy has its limitations too. In the long-run, intellectuals who are regularly employed in complex work deserve higher pay to begin with, and to make them do other wage-earning work outside of their regular jobs to improve their standard of living obviously is inconsistent with the historic status and the labor contribution of the intellectuals. It takes away their enthusiasm for their regular work. Also, the market is not a perfectly fair testing ground, because it tends to over-emphasize existing commodities and overlook future resources. This inevitably is a reflection of the tendency of the principal players in the market—enterprises and individuals—to emphasize short-term profits, and therefore simple market regulatory mechanisms always over-emphasizes technological applications and neglects basic research. Furthermore, not all intellectuals benefit from the benevolent policy. For some intellectuals (*mainly primary school and some high school teachers and those in certain public welfare-type agencies, basic research institutions, a handful of institutes of higher education, and hospitals*), because of the inherent nature of the profession and other limitations, their work cannot or should not be evaluated in monetary terms, and there may not even be a market, and despite the benevolent policy, it is difficult for them to engage in other income-boosting activities to improve their living standard. Yet, these intellectuals are the foundation of the nation's higher cultural standard and the impetus to greater economic and social developments, and the country relies heavily on them to boost the economy and to maintain steady growth. Thus, the benevolent policy is not a cure-all.

For this reason, the benevolent policy toward the intellectuals should not be applied categorically; different conditions warrant different treatment. Scientific and technological units capable of being financially independent should be encouraged to follow in the footsteps of enterprises via the benevolent policy and take care of their own profits and losses, set their own wages, and give impetus to the prosperity and development of the high-tech industry. Units with some ability to boost their own income should be encouraged to replace state agency funding and state wages with their own earnings. This can be achieved by means of linking bigger bonus funds to smaller appropriation of agency funds or similar methods. Units and individuals with little or no ability to boost their own income will continue to be supported primarily by state revenues; the benevolent policy is supplementary. As for how much these intellectuals should make, the average income of the many intellectuals active in the market and the experiences of other nations around the world have provided us with some idea. This kind of investment in human resources is the capital for national economic development; it is the "basic of capital construction." Its importance far exceeds such basic economic constructions as communications and energy resources. Weighing its relative

importance, even under the state's tight financial situation, this money is well worth spending.

Misconceptions About Origins of Drop-Out Problem Among University Students

40050136 Beijing ZHONGGUO GAODENG JIAOYU
[HIGHER EDUCATION IN CHINA] in Chinese
No 10, 13 Oct 88 pp 20-22, 11

[Article by Ceng Fanlu 2582 4907 6526 and Wu Ziren 0702 5261 0117: "Better Pay for Mental Workers and Stronger Ideological Education Needed To Combat the Attitude that Studying Is Useless"]

[Excerpt] A small number of students on college campuses across the country, especially those in open cities along the coast, have recently lost interest in studying. Lacking motivation to learn, they have let their grades slip and frequently cheated in examinations and violated academic discipline. Some have even graduated from muddling through and academic weariness to dropping out. According to data provided by some localities, the number of university students who quit in the first half of this year exceeded the numbers for years past. This phenomenon exists not only in ordinary colleges and universities but also in leading institutions. At some key universities, almost 100 students have asked to quit. This shows that the "studying is useless" attitude is on the rise. The values and concept of career of university students have changed. All this constitutes a major blow to the rhythm of teaching at institutions of higher education and cannot but arouse the concern and worry of large number of educators and of society at large.

It is known that most college drop-outs have three options. One, they could set up a stall on a thoroughfare and earn a decent living each month. Or they can return to the countryside to go into the aquatics business and earn tens of thousands of yuan in profit each year. Two, they can quickly look for a job. Enterprises funded by the "three sources of capital" and foreign trade import-export concerns offer good pay and plentiful opportunities to travel overseas. As a result, they are much sought after by college dropouts. Three, they can find a way to go abroad to study on a self-financing basis. People in this group think a little differently from those in the first two groups: they still want to study. However, they believe that "studying at home is useless" and that a domestic college degree is no passport to big bucks. More appealing to them is the idea of "advancing oneself overseas." Nevertheless, in their restlessness on campus at home and their resolve to quit, these three types of people basically think alike.

Behind the new "studying is useless" attitude is a multitude of reasons, objective as well as subjective, social as well as ideological. We need to undertake a comprehensive historical analysis if we are to formulate suitable countermeasures.

During the Cultural Revolution, the "gang of four" put the "illiterate hero" on the pedestal and spread such absurdities as the notion that "the more learned a person is, the more reactionary he will be, and the better educated, the more dumb," demanding that university graduates be treated the same as workers and peasants. Under these circumstances, qualified personnel were destroyed and knowledge was devalued. The idea that "studying is useless" held sway and constituted a powerful political force that did enormous harm to education. After the "gang of four" was crushed, we brought order out of chaos, criticized the "two estimates," and revived the system of examinations for admission to college. Soon education was on a sound footing and the old "studying is useless" thinking lost its appeal. The new variety of this attitude today is totally different from its older counterpart. It was born under a new set of circumstances as reform is being furthered and old institutions are giving way to new ones. Some people say, quite rightly, that the new "studying is useless" attitude is a function of economic changes. Chinese reform has currently entered a critical stage. Difficult issues like price reform and wage reform have not been resolved properly. Many relationships have yet to be sorted out. Hence this unjustifiable phenomenon: intellectuals are underpaid and physical workers earn more than mental workers. After studying hard for 4 years, a university graduate does not make enough to pay for two wool sweaters. A grade 1 professor is paid less than a cab-driver, not to mention an individual or specialized householder. All this cannot but undermine the work enthusiasm of teachers and affect the morale of students who see that their teachers, having toiled long and hard all their lives and shouldering heavy teaching and research responsibilities, have to live in poverty, inevitably giving rise to feelings that studying is useless. Thus we can see that the social phenomenon of paying mental workers less than physical workers is what has objectively caused the "studying is useless" mentality. If the pay of intellectuals is not improved without delay, educational reform and development will be severely impeded, ultimately undermining the four modernizations and social development.

Subjectively speaking, that a minority of students is not motivated to study has something to do with their low level of ideological consciousness. With neither lofty ideals nor clear academic goals, most of these people cannot make the connection between studying and the nation's future. As a result, when the wind of "studying is useless" blows, they tend to lose sight of the distinction between right and wrong and become susceptible to it. As educational workers, we cannot blame this or that weakness in the thinking of young students. Instead we should realize that ideological and political education is still fragile and that neither the content nor the form and methods of such education meet the needs of the new situation. There is a crying need for change and strengthening in ideological and political education. While this is not an objective reason that explains the rise of the new "studying is useless" attitude, it contributes significantly

to our failure to prevent and check it in time. To get rid of the attitude, we must certainly put an end to the disparity in wages paid to mental and physical workers gradually. At the same time, however, we must intensify the ideological and political education of university students and offer them guidance.

There is a small part of man that is spiritual. Young students, in particular, need spiritual support. Right now the objective of the struggle of the Chinese people is to "achieve the four modernizations and revitalize China." This is our shared ideal and spiritual support. If our institutions of higher education manage to educate the students properly in ideals, morals, discipline, and patriotism by strengthening and transforming ideological and political education and instill in them the spirit that one studies in order to "achieve the four modernizations and vitalize China," we will have enhanced their resistance to the mentality that studying is useless and made them eager to absorb cultural and scientific knowledge in order to develop themselves into qualified personnel that meet the needs of the four modernizations. During the Cultural Revolution, when the "studying is useless" attitude was riding high, some people studied assiduously. Today, finally, they have an opportunity to shine. We can certainly find smart individual householders today who have made a fortune. Nevertheless these people still feel their lack of education to be their biggest handicap and want to study or give their children an education. Using facts from real life, we must teach university students that the value of knowledge is eternal. As modernization intensifies and the traditional contempt for knowledge diminishes, the "appreciation" of knowledge will become inevitable. A far-sighted student will not neglect his studies for the sake of a little material benefit. He should acquire a sound ideological and moral quality and a sound cultural and scientific training in order to contribute to China's revitalization and as the basis of personal development. He should lay a solid foundation in both areas while he is at college, golden years that must never be wasted. Otherwise he would regret no end later.

There are different views and explanations of the "studying is useless" attitude in society these days. Some comrades have put forward a number of reasonable suggestions on how to resolve it. But others have advanced specious arguments and confused ideas. We need to arrive at a consensus through discussion. For example, one interpretation is that a minority of students are reluctant to study mainly because the specialties offered by colleges along with their teaching content and teaching methods are fraught with shortcomings. Therefore, they argue, it is only right that students conclude that studying is useless. People who hold this interpretation also note that in some popular specialties such as computer and international trade, the motivation to learn is high. The implication is that students are dropping out from other specialties because the latter are not what society wants. In other words, educational reform has not worked. People who argue this way have

a point and they are well-intentioned: their aim is to stress the fact that further educational reform is the only effective remedy for the spreading of the "studying is useless" attitude. Still, upon further analysis, we can see that their argument is biased and inconsistent with the facts. Let us analyze along these lines. First, no doubt the state of higher education today is flawed. Whether we are talking about the education system, the specialties offered, teaching content, or teaching methods, there are problems to varying degrees and none meets the needs of the four modernizations or the development of a socialist commodity economy completely. The solution is continuous educational reform. But is that reason enough to conclude that studying is useless? Does it justify quitting? Probably not. Educational reform must take place in the course of education and teaching. If we push their argument to its logical conclusion, then staff and faculty must quit the business of education and students must drop out until reform is completed. There would be no alternative but to suspend some specialties and stop recruiting students in these areas and dismiss those already enrolled. Clearly this is not what the people who hold this interpretation have in mind. But at least we have shown their argument to be illogical and untenable. Second, higher education reform is a highly complex affair. We must realize the long-term arduous nature of educational reform as well as the need for it. In particular, teaching reform and the modernization of teaching content are a long, drawn-out process. In a sense, this kind of reform never ends. Since science and technology change with each passing day and economic construction and other developments too forge ahead continuously, college teaching must reform itself endlessly if it is to stay in touch with reality. It is inconceivable that a day will come when we can declare that teaching reform is completed and that there will be no more reform. Thus, it does not hold water to attribute the "studying is useless" attitude to the current shortcomings in teaching. Third, looking at the specialties offered by colleges today, we must say that most are what the four modernizations need. Evidence for this is provided by the way university graduates have been allocated in recent years. Because of the difficulty of predicting personnel requirements with complete accuracy, the less-than-perfect method of formulating student recruitment plans, and the constant changes in society's need for qualified personnel, each year we have an under-supply of graduates from popular specialties and an over-supply of graduates from unpopular specialties. This is inevitable. The only satisfactory solution is to adjust our mix of industries and recruitment plans and broaden the scope of specialties. We cannot judge the social utility of a specialty by the like and dislike of students or the immediate needs of certain hiring departments. The only yardstick we can use is society's current and long-term needs. That some students are reluctant to enroll in teacher training and other specialties that require arduous work in the future does not mean that those specialties are unimportant. What it does mean is that we have failed in our job as guidance counselors. Some enterprises these days do not welcome people with

a scientific training. This certainly says much about the need to reform the training objectives and teaching content of a scientific education. But we should not conclude therefrom that science is useless. On the contrary, in the long-term interest of economic construction and social development in China, it remains imperative that we turn out some individuals skilled in basic theoretical research.

Yet another interpretation is that premature publicity surrounding the government's responsibility for allocation has encouraged the new "studying is useless" attitude. This too is not in accord with facts. As we all know, the reform of the graduate allocation system is to be implemented gradually through a number of pilot projects. The new system will not be applied to university students already enrolled or to this year's freshmen. Thus the decision by the small number of college students to quit is not necessarily related to this piece of reform. Moreover, it is a misnomer to describe the reform as the end of government responsibility for allocation. What we are going to phase in is a dual-directional allocation system, put forward after a review of the nation's experience over the past several years and designed to meet the needs of all-round reform. This system is in effect in many developed as well as developing nations around the world. The difference is that in a capitalist society, student recruitment does not follow a plan. All too often, graduation in those countries means unemployment. To put it differently, when a student graduates, he must look for a job on his own; the government is not involved at all. China is a socialist country. Our system of drawing up college and university recruitment plans may change, but the principle of planned recruitment will not. Under the dual-directional allocation system, the government will not remain completely uninvolved. On the contrary, the agencies concerned will draw up coordinated policies and measures to strengthen macro guidance over the allocation of graduates. The institutions of higher education will step up services for graduates, such as information exchange, career counseling, and making personnel recommendations to hiring units in order to do a better job in allocation and employment. Provided he takes the general interest into account, relates personal wishes to social needs, and does not refuse to enter an arduous profession or go to remote areas to work, a graduate need not worry about not finding a suitable job where he can put his expertise to use. Clearly the publicity over the reform of the allocation of college graduates has aroused the concern of large numbers of high school students and their parents. But it will not affect the eagerness of high school seniors to apply for college admission. This year the number of such applicants still outnumbered the number of places available several times over and the admission examinations remained highly competitive. Judging from the situation at some vocational universities which have gone non-residential and self-financing and ended government allocation as well as certain private institutions, their number of applicants is not expected to decrease either. People who worry that the reform of the graduate allocation system would

dampen the eagerness of high school seniors to apply for admission to college do so unnecessarily.

We have discussed the two above-mentioned interpretations at great length for these reasons. The first interpretation may lead to talk about "education reform" being "a failure," which will do nothing to check the spreading of the "studying is useless" attitude and may even further it. The second interpretation may mislead people into thinking that the new attitude is the result of educational reform and lose confidence in reform. Only by correctly and comprehensively understanding the origins of the attitude can we find a way to check it in the course of educational reform. [passage omitted]

Political Struggle in Literary, Art Circles
40050093 Hong Kong CHIUSHIH NIENTAI [THE
NINETIES] in Chinese No 226 Nov 88 pp 62-63

[Article by Lu Ching-shih 7120 0079 1102: "The Counterattack of the Leftists Before the Congress of Literary and Art Workers—As the 'Wind of Withdrawal' Gained Momentum, the Leftists Met and Planned To Compile A 'Blacklist' To Start Firing at Liberal Writers and Theorists"]

[Text] As the "wind of withdrawal" gains momentum, the literary and art circle and the entire ideological sphere have suddenly become grim and tense. The CPC Central Committee decided to bring it to a halt in the economic field and use 2 years' time to "improve economic environment and rectify economic order," and a group of hatchet men in Beijing's literary and art circle could not wait to organize a "combat collective" and started fighting after cutting off all means of retreat. Using the Society of Mao Zedong's Literary and Art Theoretical Institute as their center stage, the Marxist Literature and Art Research Institute as their support base, and Literary and Art Theory and Critique (a bimonthly, belonging to the Institute of Arts under the Ministry of Culture) as their battle ground, this group of literary and art hatchet men also held a meeting to discuss ways to send punitive expedition against liberals in literary, art and cultural circles.

Attacks at the Liberals

Liu Zaifu's theory was the first target of the forceful attack on the liberals, which was initiated by Chen Yong [7115 8673], chief editor of the Literary and Art Theory and Critique, and supported mainly by leftist writers including Huang Gang [7806 6921], Chen Ming [7115 2494], Lu Meilin [7120 2734 2651], He Jingzhe [6320 2417 0037], and Meng Weizai [1322 0251 0762]. The lengthy article "A Response to Liu Zaifu" in the fifth issue of Literary and Art Theory and Critique by the veteran writer Yao Xueyin, who squeezed into the rank of leftists and insisted that he has something to do with Marxist theory of literature and arts, is obviously a signal for the leftist counterattack. Ever since the publishing of

this article, it has been a hustle and bustle in the Marxist Literature and Arts Research Institute on the Qian Haixi Street of Beijing, the Society of Mao Zedong's Literary and Art Theory, and the office building of the Literary and Art Theory and Critique magazine. How can these people, who have been unreconciled to their defeat since the CPC began "eliminating corruption," sit and watch that Zhongnanhai's highest officials are about to change their tone and start a resolute rectification and that Zhao Ziyang has run into trouble without making full use of such a good opportunity?

The crucial point of the written polemics between Yao Xueyin and Liu Zaifu is the fight between two major schools for leadership and position in the literary and art circle. The evaluation and the controversy of Liu's "Theory of Literary and Art Subjectivity" and Yao's historical novel *Li Zicheng* is only a formal struggle and a superficial phenomenon. The CPC will hold the Fifth National Congress of Literary and Art Workers from 8 to 12 November this year to elect new leading bodies for the federation and its associations. The purpose of the leftist counterattack is to get seats in the leading bodies.

Contention for the Leadership of the Literary and Art Circle

If we take a look at the current mainland China, we will find that the leadership of the literary and art circle is divided with the leftists and the liberals, each occupying a half just like an ancient Chinese totem—a very mysterious symbol called the "yin-yang fish"—where yin rises as yang falls, and vice versa. Sometimes the liberals gain the upper hand and have a bigger ground and more power in the literary and art circle; sometimes, they are constantly provoked, attacked, and refuted by major leftists and even lose their ground for some periods.

We will not talk about what happened long time ago. Let us just take the Zhuozhou Conference, which was held from 6 to 12 in April 1987, for instance. Major leftists, such as He Jingzhi (then deputy director of the Central Propaganda Department of the CPC Central Committee), Xiong Fu [3574 1788] (then chief editor of the HONG QI magazine which is a theoretical publication of the CPC organs), and Chen Yong (chief editor of LITERARY AND ART THEORY AND CRITIQUE and main critic of Liu Zaifu) were leaders and Meng Weizai (former chief of the Literary and Art Bureau of the Central Propaganda Department), Liang Guangdi [4731 0342 4574] (former deputy chief of the Literary and Art Bureau of the Central Propaganda Department), Lin Mohan [2651 7817 3211] (advisor of the Central Cultural Department and leftist theorist), Liu Baiyu [0491 4101 5038] (a famous "general-turned writer" and former director of the Cultural Department of the Military Commission), Wang Renzhi [3769 1804 0037] (director of the Central Propaganda Department), Yao Xihua [1202 6932 5478] (chief editor of GUANGMING RIBAO), and Li Xifan [2621 1585 0416] (then famous for criticizing Yu Pingbo [0205 1627 0130] and now

serving as the vice president of the Chinese Art Institute) were major followers. After years of painstaking work, they built up a contingent of "over 120 literary and art workers and chiefs of the literary and art sections of the propaganda departments of provincial, municipal, and autonomous regional CPC committees." With such a powerful force, it looked as if they were determined to wipe out all heterodoxy and make the mainland's literary and art circle "red all over." However, then Zhao Ziyang seized on their mistakes of attacking the reform and opening up and deliberately discrediting "the literature and art of the new period" and dispersed once and for all this "red guard reserves" in the literary and art circle. As a result, He Jingzhi and Meng Weizai stepped down simultaneously, HONGQI was ordered to suspend operation for a certain period of time, Xiong Fu took to flight. But before long, this group of "centipedes" staged a comeback when they thought that the temperature was right and the soil condition was ideal.

Yao Xueyin Draws the Curtain of Battle

Like the attack they staged in last Spring, this group of major leftists drew the curtain of battle through Yao Xueyin's response to Liu Zaifu, and immediately after that the Society of Mao Zedong's Literary and Art Theory held a series of meetings in the name of celebrating the anniversary of the issue of Mao Zedong's certain instruction on literature and art to analyze and study contemporary literary and art theories and creation and issues concerning the leadership of the literary and art circle. (Last year, on the occasion of the 45th anniversary of the publication of Mao Zedong's "speech at the Yanan Literary and Art Forum," Peng Zhen bolstered leftists by saying that he would use "dictatorship to deal with the enemy and that those who try to overthrow the socialist system will be deprived of the freedom of speech, press, assembly, and demonstration," indicating that there is a great possibility of bringing back the purges. They are very unhappy about the fact that Wang Meng, who is a writer, holds such a high-ranking leading position in the Ministry of Culture, that long-time liberals Xia Yan [1115 5888] and Wu Zuqiang [0702 4371 1730] (musician, president of the Central Music College, secretary of the Leading Party Group of the All-China Federation of Literary and Art Circle, and Brother of noted writer Wu Zuguang [0702 4371 0342]) have the leadership of the All-China Federation of Literary and Art Circle, that Tang Dacheng [0781 6671 2052], Bao Chang [7637 2490], and Wu Taichang [0702 3141 2490] lead the Chinese Writers' Association. They think that these people should not be sitting in leading positions because they are not devout Marxists and that they should be replaced by the "purist" leftists. Like the Zhuozhou conference of last April, they still consider RENMIN RIBAO (especially the overseas edition) as "aliens" and WENYI BAO (published by the Chinese Writers' Association) as "heterodoxy."

They say that Chen Yong, Chen Ming, Xiong Fu, He Jingzhi, Huang Gang, and Yao Xueyin have made up a long list of targets for their attack. At the present, they

will concentrate the fire on attacking Liu Zaifu (as the representative of "anti-Marxism" in the literary and art circle of the mainland) and Zhang Xianliang (criticized as an "anti-Mao Zedong thought" writer in literary and art creation). They even plan to direct the spearhead at writer Wang Meng, who is now the Minister of Culture of the CPC Central Committee by accusing him of worshipping western culture, praising western writers, and learning their techniques, thus promoting the "total Westernization" of literary and art creation, in an attempt to overthrow Wang Meng, who was labelled a member of the Hu's clique early last year at the Zhuozhou conference (referring to the fact that Hu Yaobang nominated Wang Meng for the Minister of Culture position).

Wang Zhen Starts Swearing and the Leftists Rejoice

In addition to the fact that the Congress of Literary and Art Workers is about to open and that the authorities of Zhongnanhai are switching from reform to bringing order out of chaos, another favorable condition for the leftists to launch an all-out attack at the liberals is that the veteran general Wang Zhen, who has always been rude and emotional, has been shouting abuse about "River Elegy," which is a television political drama, at the 3d plenary session of the 13th CPC Central Committee and in private. He criticized it for "completely negating Chinese traditional culture," "blindly worshipping the material and ideological progress of the West," and "betraying our country by deceiving and destroying our forefathers." Wang Zhen not only summoned Tan Wenrui [6223 2429 3843], chief editor of RENMIN RIBAO, by telephone and scolded him for as long as 2 hours but also instructed the State Council to make a public announcement, through Yuan Mu [5913 2606], the State Council spokesman, stating that the television series, "River Elegy," is an "extremely harmful television program which has committed serious political and ideological mistakes," and that we should "denounce its traitor mentality, criticize its ideological content for losing the national pride and confidence, and solemnly point out its directional mistakes." It is reported that since they advertised for "River Elegy," in RENMIN RIBAO, WENYI BAO, and the Literature and Art Publishing House (which published a special edition, called "A Review of the River Elegy," for nation-wide distribution) were forced to conduct self-criticism.

Obviously the reason why Chen Yong and others are so unafraid to stand out and dare to make a "blacklist" at their "homogeneous" meetings to criticize so many famous writers and theorists is because they are backed by such veteran and prominent leftists as Peng Zhen, Bo Yibo, Wang Zhen, Hu Qiaomu, and Deng Liqun. The "grand meeting of leftists," which was held in Zhuozhou last year and sponsored by two magazines and one

newspaper—HONGQI, LITERARY AND ART THEORY AND CRITIQUE, and GUANGMING RIBAO—has become a united movement of the "Society of Mao Zedong Literary and Art Theory," "Marxist Literary and Art Research Institute," and LITERARY AND ART THEORY AND CRITIQUE. Although the names have been changed, but the members are all the same and the targets of their attacks are also very much the same.

Three Major Points of "Rectification" Remain Unchanged

At the Zhuozhou organizing and drafting meeting sponsored by the abovementioned two magazines and one newspaper last year, the leftist camp put forward three major points for the "rectification:" 1) We should criticize the guideline of the Fourth Writers' Congress, which was held in late December 1984, especially Hu Qili's congratulation speech, and the "lenient policy" Wang Meng implemented in the Ministry of Culture and the writers' association; the Minister of Culture was labelled as the "foundation of liberal organization." 2) We should criticize and denounce Liu Zaifu's "theory of literary and art subjectivity" and label him as the "foundation of liberal theory." 3) We should thoroughly criticize the "unhealthy tendency" in the creative field and denounce "pornography" represented by Zhang Xianliang.

Today these three points are exactly the same except that the attack is resumed after a quiet period, and the motive of this counterattack is to take advantage of the Congress of Literary and Art Workers and the representatives' meetings of various associations, which are to be held in November, to seize the leadership and return it to the leftists. They cannot stand the "inexperienced" Liu Zaifu being re-elected to the director's position at the Literary Institute of the Chinese Academy of Social Sciences, nor can they tolerate the "young" Wang Meng sitting so high in the position of cultural minister.

However, the readers (audience) of mainland China in the late 1980's have broadened their horizon, enriched their accomplishment, and have had a diversified ability of appreciation. The days in which "the people went wherever the party pointed to" were over long time ago. The sweet dream of those leftists probably will not last very long. Chen Yong and Yao Xueyin's wishful thinking cannot be materialized unless Zhao Ziyang is unfortunately overthrown like Hu Yaobang.

At the end of the article in response to Liu Zaifu, Yao Xueyin quoted the second verse of Tu Fu's famous poem: "Wang, Yang, Lu, and Luo were popular then, but frivolous articles will soon be forgotten. Your bodies and names will perish, but the river will flow on forever." Actually, won't it be more appropriate if this poetic masterpiece is quoted back to the veteran leftist writer who quoted it?

Analysis of Mainland Military Wage Systems
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[Article by Shu T'ing 4782 1250: "A Survey of Salaries for PLA Personnel"]

[Text] I. Preface

In the early period of the Chinese Communist (Chicom) usurpation of authority, all personnel from the Military Commission down to troops in the lowest level companies were uniformly part of "the supply system," where each month a small amount of cash was provided as an allowance for pocket money. Standards and means of allocation differed by region, but generally speaking, it was extremely meager. The standard for the monthly allowance per person from April 1949 through February 1951 was: platoon or company level, 1.72 yuan (calculated on the basis of the current RMB); battalion or regiment, 2.67 yuan; and for divisions and up, 3.62 yuan.¹

In 1955 the Chicom military implemented a system of military ranks, and the wages for this were based on a salary system as changed from the former supply system. This salary system was divided into two classifications: salary by grade and a supplement based upon years of service. Within these, the salaries by grade for cadre at the regiment or lower level became: regiment grade, 190 yuan; deputy regiment grade, 170 yuan; [zhun 0402]-regiment grade, 150 yuan; battalion grade, 130 yuan; deputy battalion grade, 110 yuan; company grade, 90 yuan; deputy company grade, 75 yuan; platoon grade, 60 yuan; and assistant platoon grade, 46 yuan. The supplement for length of service was a percentage of the basic salary, where service of 5-10 years yielded 10 percent; 10-15 years service got 15 percent; 15-20 years got 20 percent; 20-25 years got 25 percent; and more than 25 years got 30 percent.²

After implementation of that system, the Chicom military made three adjustments, one each in July 1956, January 1957, and October 1960. At those times slight increase were made for salaries of regiment grade and below, while there were slight decreases for the [zhun 0402]-regimental ranks and above. The military salary system for the Chicom military was eliminated in June 1965, and there were also changes made to the salary structures and the supplement for years of service was discontinued, wages then being calculated directly by administrative level. This method of allocating wages continued in effect until April 1980, when it was replaced by a wage system based on position and administrative level, that is, the current wage system in force in the Chicom military.

On 1 July 1985 the Chicom military went along with the wage restructuring that was going on in the political and economic systems by adjusting remuneration for their unit cadre at a rate of 30-35 percent. Wages for the Chicom military after this were about 20 percent higher than for local cadre.

II. Wage Standards for the Chicom Military Cadre Before the Adjustments (April 1980-June 1985)

In April 1980 wages for Chicom cadre began to be calculated according to a "position and administrative level system," which divided cadre wages into wages for a position and wages for a particular grade (the two together were called "basic wages").

A. Wages by Grade

These were divided into 23 grades, where in the first category—administrative cadre (the Chicom military is divided into the three types of wage standards for administrative cadre, science and technology and literary and artistic cadre, and physical training cadre), the highest is chairman and the vice-chairmen of the Military Commission whereby monthly stipend for wages by grade range from grade 1 (286 yuan) to grade 3 (250 yuan); the lowest is the assistant platoon positions, where the monthly wage ranges from grade 21 (51 yuan) to grade 23 (37 yuan). The second category is made up of the science and technology and literary and artistic cadre. The highest here is the first class S&T and artistic cadre, whose monthly wage ranges from grade 4 (268 yuan) to grade 11 (154 yuan). The lowest are the class 15 S&T and artistic cadre, where the monthly wage ranges from grade 21 (51 yuan) to grade 23 (37 yuan). The third category is comprised of the physical training (PT) cadre. In this, the highest are the first class PT cadre, whose monthly wages range from grade 6 (232 yuan) to grade 18 (72 yuan). The lowest are the class 11 PT cadre, for whom the monthly wage ranges from grade 21 (51 yuan) to grade 23 (37 yuan).

B. Wages by Position

These are divided into 17 grades, and the first category is the administrative cadre. The highest among them are the chairman and vice chairmen of the Military Commission, for whom monthly wages are grade 1 of the position wages at 119 yuan. The lowest are the assistant platoon positions, having the monthly grade 17 position wage of 15 yuan. The second category, of S&T and artistic cadre, include the highest first class cadre position of the grade 3 position wage of 101 yuan, and the lowest such position in class 15, where the monthly position wage is at grade 17, or 15 yuan. The third category, PT cadre, range from the highest first class PT cadre with a monthly position wage of grade 7, or 73 yuan, to the lowest class 11 PT cadre with the monthly grade 17 position wage of 15 yuan. The following table lists the standards for wages by both grade and position before the readjustment.

Wages by Grade			Wages by Grade		
(Unit: RMB)			(Unit: RMB)		
Grade	Wages	Grade differential	Grade	Wages	Grade differential
1-3	286	18	14	112	14
4	268	18	15	102	10
5	250	18	16	92	10
6	232	18	17	82	10
7	214	18	18	72	10
8	196	18-14	19	65	7
9	182	14	20	58	7
10	168	14	21	51	7
11	154	14	22	44	7
12	140	14	23	37	7
13	126	14			

Wages by Position					
(Unit: RMB)					
Grade	Admin. Position	S&T/Cultural Grade	PT Grade	Position Wages	Position Differential
1	Full & Vice Chairmen, Central Military Commission	-	-	119	9
2	Member, Standing Committee CMC	-	-	110	9
3	MR Commander	1	-	101	9-7
4	MR Deputy Commander, Army Group Commander	2	-	94	7
5	Army Group Deputy Commander	3	-	87	7
6	Army Commander	4	-	80	7
7	Army Deputy Commander	5	1	73	7
8	Division Commander	6	2	66	7
9	Division Deputy Commander	7	3	59	7
10	Regiment Commander	8	4	52	7
11	Regiment Deputy Commander	9	5	45	7-5
12	Battalion Commander	10	6	40	5
13	Battalion Deputy Commander	11	7	35	5
14	Company Commander	12	8	30	5
15	Company Deputy Commander	13	9	25	5
16	Platoon Leader	14	10	20	5
17	Assistant Platoon Leader	15	11	15	5

III. Current Wage Standards for Chicom Military Cadre (1985 to Present)

The current wage allotment standards for Chicom military cadre are still based on the "position plus the old administrative level system," but after the wage adjustment of 1985 there were slight changes in the grade and position wages for cadre at each level and category. The greatest differences among them occur in the differentials between the highest and lowest ranks. There was also a slight increase in cadre wages at each level.

A. Wages by Level

The wages by level currently in force within the Chicom military are similarly divided into 23 levels, where the monthly wage for levels 1-3 is 240 yuan; level 4 is 200 yuan; level 5 is 184 yuan; level 6 is 170 yuan; level 7 is

156 yuan; level 8 is 144 yuan; level 9 is 134 yuan; level 10 is 126 yuan; level 11 is 118 yuan; level 12 is 110 yuan; level 13 is 102 yuan; level 14 is 94 yuan; level 15 is 86 yuan; level 16 is 78 yuan; level 17 is 70 yuan; level 18 is 63 yuan; level 19 is 56 yuan; level 20 is 50 yuan; level 21 is 44 yuan; level 22 is 39 yuan; and level 23 is 34 yuan.

1. Administrative Cadre

a. The highest are the chairman and vice chairmen of the Military Commission (level 1 general), and the scope of monthly wage allotments by level is from level 1 (240 yuan per month) to level 6 (170 yuan).

b. Standing committee member of the Military Commission (general to lieutenant general, where the reference military rank is lieutenant general, from level 4 (200 yuan) to level 7 (156 yuan).

c. Military region, regular forces (general to major general, where the reference military rank is lieutenant general), from level 4 (200 yuan) to level 19 (56 yuan).

d. Military region, reserve forces, regular Army Group positions (from lieutenant general to senior colonel, where the reference rank is lieutenant general), from level 5 (184 yuan) to level 19 (56 yuan).

e. Reserve Army Group lieutenant general to senior colonel, where the reference rank is lieutenant general), from level 7 (156 yuan) to level 19 (56 yuan).

f. Regular Army lieutenant general to senior colonel, where the reference rank is major general), from level 7 (156 yuan) to level 20 (50 yuan).

g. Reserve Army (major general to colonel, where the reference rank is major general), from level 7 (156 yuan) to level 20 (50 yuan).

h. Regular Army Division (major general to colonel), from level 10 (126 yuan) to level 21 (44 yuan).

i. Reserve Army Division, regular brigade (senior colonel to lieutenant colonel, where the reference rank is colonel), from level 11 (118 yuan) to level 21 (44 yuan).

j. Reserve brigade, regular regiment (colonel to lieutenant colonel, where the reference rank is colonel), from level 14 (94 yuan) to level 21 (44 yuan).

k. Reserve regiment lieutenant colonel to major, where the reference rank is lieutenant colonel), from level 15 (86 yuan) to level 22 (39 yuan).

l. Regular battalion lieutenant colonel to major, where the reference rank is major), from level 16 (78 yuan) to level 22 (39 yuan).

m. Reserve battalion (major to captain, where the reference rank is captain), from level 17 (70 yuan) to level 22 (39 yuan).

n. Regular company (captain to 1st lieutenant, where reference rank is captain), from level 18 (63 yuan) to level 23 (34 yuan).

o. Reserve company (captain to 1st lieutenant, where the reference rank is 1st lieutenant), from level 19 (56 yuan) to level 23 (34 yuan).

p. Regular platoon (1st lieutenant to 2nd lieutenant, where the reference rank is 2nd lieutenant), from level 20 (50 yuan) to level 23 (34 yuan).

q. Reserve platoon (1st lieutenant to 2nd lieutenant, where the reference rank is 2nd lieutenant), from level 21 (44 yuan) to level 23 (34 yuan).

2. Science and Technology and Literary and Artistic Cadre

a. Wage grades for first class S&T and cultural cadre, from level 4 (200 yuan) to level 19 (56 yuan) (comparable to the wage grades of regular army positions in military regions for administrative cadre of the third class).

b. Second class S&T and cultural cadre, from level 5 (164 yuan) to level 19 (56 yuan) (comparable to the wage grades of reserve forces in the military regions and of regular Army Groups for administrative cadre of the fourth class).

We can deduce from these categories that the wage grades for third class S&T and cultural cadre are comparable to those of fifth class administrative cadre of reserve Army Groups; fourth class S&T and cultural cadre are comparable to sixth class administrative cadre in regular army units; . . . and that fifteenth class S&T and cultural cadre are comparable to 17th class administrative cadre in reserve platoon positions.

3. Physical Training Cadre

a. The range of wage grades for first class physical training cadre goes from level 7 (156 yuan) to level 20 (50 yuan) (comparable to wage grades for 7th class administrative cadre in the reserve forces and to fifth class S&T and cultural cadre).

b. The range for second class PT cadre goes from level 10 (126 yuan) to level 21 (44 yuan) (comparable to wage grades for 8th class administrative cadre in regular division units and for 6th class S&T and cultural cadre).

We can deduce from this that the wage grades for 3rd class PT cadre are comparable to those for 9th class administrative cadre in reserve divisions and in regular army brigades, as well as to those for 7th class S&T and cultural cadre; 4th class PT cadre wage grades are comparable to 10th class administrative cadre in reserve brigade and regular army regiments and to 8th class S&T and cultural cadre; . . . 11th class PT cadre wage grades are comparable to 17th class administrative cadre in reserve platoons and to 15th class S&T and cultural cadre.

B. Wages by Position

The wages by position currently in effect in the Chicom military are divided into 17 grades: grade 1 has a monthly stipend of 340 yuan; grade 2, 230 yuan; grade 3, 206 yuan; grade 4, 186 yuan; grade 5, 170 yuan; grade 6, 156 yuan; grade 7, 143 yuan; grade 8, 130 yuan; grade 9, 117 yuan; grade 10, 105 yuan; grade 11, 94 yuan; grade 12, 83 yuan; grade 13, 74 yuan; grade 14, 66 yuan; grade 15, 58 yuan; grade 16, 50 yuan; grade 17, 42 yuan.

1. Administrative Cadre

a. Chairmen and vice chairmen of the Military Commission are paid at the first grade of wages by position, 340 yuan.

b. Members of the standing committee of the Military Commission are paid at the second grade of wages by position, 230 yuan.

c. The regular army in the military regions are paid at the third grade of wages by position, 206 yuan.

d. Reserve forces in the military regions and regular Army Group positions belong to the 4th grade, 186 yuan.

e. Reserve Army Groups belong to the 5th grade, 170 yuan.

f. Regular Army belongs to the 6th grade, 156 yuan.

g. Reserve Army belongs to the 7th grade, 143 yuan.

h. Regular divisions belong to the 8th grade, 130 yuan.

i. Reserve division and regular brigades belong to the 9th grade, 117 yuan.

j. Reserve brigades and regular regiments belong to the 10th grade, 105 yuan.

k. Reserve regiments belong to the 11th grade, 94 yuan.

l. Regular battalions belong to the 12th grade, 83 yuan.

m. Reserve battalions belong to the 13th grade, 74 yuan.

n. Regular companies belong to the 14th grade, 66 yuan.

o. Reserve companies belong to the 15th grade, 58 yuan.

p. Regular platoons belong to the 16th grade, 50 yuan.

q. Reserve platoons belong to the 17th grade, 42 yuan.

2. Science and Technology, and Cultural Cadre

a. First class S&T and cultural cadre belong to the 3rd grade, 206 yuan (comparable to third class administrative cadre in regular army positions in the Military Regions).

b. Second class S&T and cultural cadre belong to the 4th grade, 186 yuan (comparable to 4th class administrative cadre in positions with the reserve forces in the Military Regions and with regular Army Groups).

We can deduce from this that 15th class S&T and cultural cadre are comparable to 17th class administrative cadre in reserve platoons, which are paid according to the 17th grade, 42 yuan.

3. Physical Training Cadre

a. First class PT cadre are paid according to the 7th grade, 143 yuan (comparable to 7th class administrative cadre in reserve Army positions and to 6th class S&T and cultural cadre).

b. Second class PT cadre are paid according to 8th grade position wages, 130 yuan (comparable to 8th class administrative cadre in regular division positions and to 6th class S&T and cultural cadre positions).

We can deduce from this that 11th class PT cadre are comparable to 17th class administrative cadre in reserve platoon positions and to 15th class S&T and cultural cadre, and are paid at the 17th grade, 42 yuan.

Table of Wages by Grade

Grade	Wages	Grade differential
1-3	240	40
4	200	40-16
5	184	16-14
6	170	14
7	156	14-12
8	144	12-10
9	134	10-8
10	126	8
11	118	8
12	110	8
13	102	8
14	94	8
15	86	8
16	78	8
17	70	8-7
18	63	7
19	56	7-6
20	50	6
21	44	6-7
22	39	5
23	34	5

Wages by Position

Grade	Admin. Position	S&T/Cultural Grade	PT Grade	Position Wages	Position Differential
1	Full & Vice Chairmen, Central Military Commission (1st grade general)	-	-	119	9
2	Member, Standing Committee CMC (General to Lt. General, general as reference)	-	-	110	9
3	MR Commander	1	-	101	9-7

Wages by Position

Grade	Admin. Position	S&T/Cultural Grade	PT Grade	Position Wages	Position Differential
4	(General to Major General, Lt. General as reference) MR Vice Commander, Regular Army Group (Lt. General to Senior Colonel, Lt. General as reference)	2	-	94	7
5	Reserve Army Group (Lt. General to Senior Colonel, Lt. General as reference)	3	-	87	7
6	Regular Army (Lt. General to Senior Colonel, Major General as reference)	4	-	80	7
7	Reserve Army (Major General to Colonel, Major General as reference)	5	1	73	7
8	Regular Division (Major General to Colonel, Senior Colonel as reference)	6	2	66	7
9	Reserve Division (Senior Colonel to Colonel, Colonel as reference)	7	3	59	7
10	Regular Regiment (Colonel to Lt. Colonel, Colonel as reference)	8	4	52	7
11	Reserve Regiment (Lt. Colonel to Major, Lt. Colonel as reference)	9	5	45	7-5
12	Regular Battalion (Lt. Colonel to Major, Major as reference)	10	6	40	5
13	Reserve Battalion (Major to Captain, Captain as reference)	11	7	35	5
14	Regular Company (Captain to 1st Lt., captain as reference)	12	8	30	5
15	Reserve Company (Captain to 1st Lt., 1st Lt. as reference)	13	9	25	5
16	Regular Platoon (1st Lt. to 2nd Lt., 2nd Lt. as reference)	14	10	20	5
17	Reserve Platoon (1st Lt. to 2nd Lt., 2nd Lt. as reference)	15	11	15	5

IV. Allowance Subsidies

Aside from basic wages (the wages by grade) and the wages by position, actual income from wages for Chicom cadre also includes a so-called "allowance and subsidy." This is a very small amount and is issued under the following conditions:

A. Military service (including years of service) allowance: this is calculated from the first year of approval for membership in the cadre (that first year counts as a year no matter when during the year membership began) and is issued monthly. There is an annual increase of a basic 0.5 yuan, the highest being 40 times the base figure, or 20 yuan. Even service of over 40 years would only get the highest amount of 40 times of the base figure (but before June 1985 the amount was calculated according to actual years of service).

B. Nursing and teaching service allowance: there is a special regulation that all cadre currently engaged in nursing or midwifery or in teaching, as well as those

currently working as teachers in mid-level vocational schools can draw a nursing/teaching subsidy (issued in accordance with the rules for the service allowance), where those who have served in such capacities for a full 5 to 10 years are allocated a 3-yuan nursing/teaching subsidy; those so employed for 10-15 years are given 5 yuan; 15-20 years are given 7 yuan; and anyone over 20 years is given 10 yuan.

C. Regional wage subsidy: the Chicom military divides troop occupation areas into eight categories according to living conditions (the first category for the best living conditions and the eighth for the worst). There is a regulation that military cadre stationed in the 7th and 8th category regions can receive a regional wage subsidy, which in principle is a multiplier of a percentage of the basic wage (the median value of a particular wage scale). For category 7 regions that is 2.61 percent, and for category 8 regions it is 5.22 percent.

D. Island living allowance: in addition to the regional wage subsidy, cadre are further divided into those stationed on first and second category islands, for which an

additional living allowance is issued. Those on first category islands (as for example the Shengsi Islands and the Daju Islands) receive a 12-yuan island living allowance, and those on category two islands (as for example the Dachen Islands and the Yuhuan Islands) receive a 10-yuan island living allowance.

E. Athlete and coach technology subsidies and physical education allowances (bonuses): athletes and coaches who are military cadre are issued a technology subsidy (paid at the end of each year). That for athletes is divided into four grades: grade 1 is 25 yuan a month; grade 2 is 15 yuan monthly; grade 3 is 10 yuan a month; and grade 4 is 5 yuan per month. The coaching technology subsidy is divided into five grades: grade 1 is 150-300 yuan per month; grade 2 is 90-180 yuan; grade 3 is 60-120 yuan; grade 4 is 30-60 yuan; and grade 5 is 30 yuan per month.

In addition to the coaching technology subsidy, coaches who are military cadre are also granted physical education allowances, which comprise three grades: grade 1 is a monthly payment of 30 yuan; grade 2 is 20 yuan; and grade 3 is 10 yuan.

As to whether athletes and coaches who are military cadre can be rewarded for competition and be further paid physical education bonuses, if they win a category one individual competition they can be awarded a prize of 600 yuan.

F. Health care subsidies for medical jurisprudence and poison research laboratory tests: those personnel who are specialists in military public health departments, in courts, and in prosecution who are engaged in laboratory tests for medical jurisprudence and poisons are additionally granted health care subsidies for that work. The standard for these subsidies are: 7 yuan a month for the Army (the Nanjing Military Region), and 9 yuan monthly for the Navy and Air Force.

G. Health care allowance for personnel in pharmacological hygiene, sanitation and epidemic prevention, and veterinary medicine: for military cadre working in hygiene units, a health care allowance is provided for qualified researchers who could themselves become infected or who could become so because of their work environment. Six categories are provided: the first is 12 yuan; the second, 10 yuan; the third, 8 yuan; the fourth, 6 yuan; the fifth, 4 yuan; and the sixth, 2 yuan.

H. Living subsidy for those cadre on leave or who retire from service: in addition to wages for position and grade at the time of separation, separating cadre are additionally paid 30 yuan monthly as a living subsidy and 5 yuan as a price subsidy for non-staples; in addition to living expenses issued to retiring cadre in accordance with the time they entered the service, each person is also paid a 7-yuan living subsidy, as well as a one-time two-month payment at his current wage scale as a resettlement subsidy.

V. Regulations for the Payment of Wages

A. Fixed position, fixed grade: for those cadre newly promoted and whose time in service is 3 years or less, they are paid wages by position according to reserve platoon positions. Those who have served at least 3 years are paid wages by position for the positions they actually hold; for both groups, wages by grade are paid as entitled.

B. Promotions by position and by grade: with promotion in position, wages are paid beginning the month the promotion takes effect, and the original wage holds until that time; for promotion in grade, wages commensurate with that grade are paid beginning the month so determined.

C. For withdrawal, demotion, dismissal, or reduction in grade: those relieved of their positions are still paid according to their former position; those demoted or dismissed are paid according to the position to which they are demoted or that is determined for them, beginning when that position takes effect; wages by grade continue in effect; for those who are reduced in grade, beginning with the month of the action, payment is according to the new grade.

D. For those military cadre who transfer to local institutes for training and who after graduation will return to work in their former units: they are paid according to their former rates by the original unit.

E. For students of local and military institutes who have been assigned to units:

1. Graduates of low level military command institutes: those graduating from vocational schools will be paid according to regular army platoon positions and the administrative grade 23; graduates of higher institutions are paid according to regular army platoon positions and the administrative grade 22; college graduates are paid according to reserve company positions and administrative grade 22.

2. Those who are assigned to positions in military units after graduating from military specialized technology institutes and from local institutions, and those not officially employed but who have college backgrounds, will temporarily be paid according to regular army platoon positions and administrative grade 23; those with vocational school backgrounds will temporarily be paid according to reserve platoon positions and administrative grade 23 until official assumption of duties.

F. For cadre who have learned a specialized technology from outside the military: before officially taking up the assigned position and grade, they will temporarily be paid according to the wage scale in effect locally; after officially assuming a position and grade, they will be paid according to the assessed technological position and administrative grade.

G. Former military cadre who have transferred to positions of leadership in the Communist Party and in government organizations, where responsibility for supply is still with the military: wages are paid according to the original military position and grade.

H. Cadre who are on leave, retired, been transferred to civilian duties, or have been demobilized: wages are paid to those cadre on leave in accordance to their position and grade at the time of leaving, and for demobilized or transferred and retired personnel, wages are continued until the month of separation.

I. For those TDY, on official duty, on temporary low-level duty, taking someone's place, assembled for training, in hospital, or recuperating: for time periods of 3 or fewer months the pay scale is at the original rate and there is no change of affiliation for purposes of supply; for periods in excess of 3 months that affiliation can be changed, at which time standards at the area in question are in effect.

VI. Overall Evaluation

A. The hierarchical nature of Chicom cadre wage standards: we can see from the materials we have been analyzing that wage standards currently in effect clearly contain a gap between the higher and the lower: under the old wage standards, there was a grade wage differential in only four categories (7, 10, 14, and 18 yuan, respectively); cadre wage standards at present have broadened that to 9 categories (5, 6, 8, 10, 12, 14, 16, and 40, respectively), while the differential between the highest and lowest over the former and current grade wage standards has broadened from the former 11 yuan to the current 30 yuan.

As far as the differential between position wages is concerned, the former wage standards only distinguish between three categories (5, 7, and 9 yuan, respectively); the current wage standards have increased those to ten categories (8, 9, 11, 12, 13, 14, 16, 20, 24, and 110, respectively), where the differential between highest and lowest for position wages increased from the former 4 yuan to 112 yuan.

It is for this reason that as far as lower ranking cadre are concerned (taking the reserve platoon position as an example), during the most recent adjustment they received an increase of only about 20 yuan, while one high level cadre (taking the chairmen and vice chairmen of the Military Regions as an example) saw an increase of about 160 yuan. This not only explains how this recent wage adjustment favored the higher level cadre, but can also be shown to reflect the increasing sense of class consciousness among internal Chicom military cadre because of wage differentials.

B. There are limits to income from the wage adjustments: this adjustment in wages is closely allied with the reduction in forces. On the one hand, the reduction in

forces provided the Chicom military with sufficient funds to raise cadre salaries, and on the other hand, there is currently a strong feeling within the military that by serving in the armed forces one loses out. The majority of cadre feel at a loss regarding their futures, so this increase in cadre wages was intended to soothe feelings. This kind of move, however, will be largely reduced in effect because of the inflation for material goods over the past few years. Cadre generally feel that, "It is all right to increase wages, but our buying power goes down as the price of goods goes up."³ The results regarding "comforting" the military by means of this adjustment in wages are quite limited.

C. It will be difficult to resolve the fact that the wage system is irrational: for a long time now, the Chicom wage system has had a problem in being "low, level, dead, and in chaos,"⁴ and this has been especially true for the military wage structure. Although it has been reformed and adjusted numerous times, they have yet to come up with a completely satisfactory solution. To use the July 1985 wage adjustments as an example, the military Kunming Military Region once held a "Military Region working conference," at which military cadre posed several objections, one of which was about which institutions were to be considered vocational when it came to determining positions and grades? And, does leading a unit qualify as a vocational school? They indicated dissatisfaction with the fact there are few clear regulations. Cadre on leave felt they would lose out by not being part of the wage adjustments, that in comparison with cadre on the job, the degree of their pay raises was going to be somewhat less.⁵ Just as Hu Qili, Central Committee Secretary, said, "This occasion of wage restructuring can only be reasonable for the most part, and cannot be completely so."⁶

In fact, the military has made it clear there are several problems with the wage system. Therefore, as the military was adjusting cadre wages, it was also proposing that it would intensify cadre thought regulation efforts and would require that party commissions and leadership at each level would strengthen their guidance⁷ to avoid the occurrence of political incidents.

D. As before, wages tend to be low: since 1955 when the provision system was changed to the salary system, military wages for cadre have stayed in the range of from 10 to 30-40 yuan. Even with the great increase in wages for high level cadre on this occasion, the highest wages, those of the chairmen and vice chairmen of the Military Commission, are only 580 yuan, which is clearly lower than that for more advanced countries. For this reason, if military cadre are thinking that income for a single unit will be able to support the entire family, that will be rather difficult unless the others in the family can also find work. It is just this reason of low income that problems with attitude are so common, especially after the Chicoms implemented a partial economic liberalization when so many cadre families requested that their service member be transferred to civilian life or be

demobilized. This phenomenon was especially serious for the base level cadre, and it promises to be yet another hidden concern for military units.

E. A new military wage system is currently under consideration: according to reports from "Regulations for Active Duty Military Officers" reported on at the third meeting of the Standing Committee of the National People's Congress on 5 September 1988: after restoration of the military rank system, a wage structure will go into effect for officers that is comprised of salary by position, salary by rank, and salary by years of service, where the primary element will be the salary by position. Also, subsidies will be provided for officers in special areas, working at special posts, or under other special conditions. There has been only this new standard for wages and its related provisions, but it could be awhile before it is formalized.

Footnotes

1. JIEFANGJUN BAO, 12 Jan 1985, the "Military History" column, "Our army changed from a provisions system to a wage system."
2. Ibid.
3. KUOFANG ZHANSHI BAO, 20 Jul 1985, as issued by the Politburo of the Kunming Military Region, p 2, "From the point of view of overall state thinking, we should diligently carry out policies."
4. See CHUNGKUNG YENCHIU, 19.11, p 51, "An Analysis of Problems in the Restructuring of the Chinese Communist Wages."
5. Ibid.
6. Ibid.
7. Ibid.